



HDI-Gerling Industrie Versicherung AG at a Glance

		2010	2009
Premium income (gross)	€ million	2,530	2,524
Increase/decrease in gross premium income	%	0.3	1.5
Income from earned premiums for own account	€ million	1,177	1,170
Claims and claims expenses for own account	€ million	885	930
Loss ratio for own account	%	75.1	79.5
Underwriting expenses for own account	€ million	281	266
Expense ratio for own account	%	23.9	22.8
Net underwriting result before equalization reserve for own account	€ million	-7	-85
Combined Ratio (loss/expense ratio) for own account	%	99.0	102.3
Investments	€ million	5,984	5,781
Investment income	€ million	299	304
Net profit/loss from non-insurance business	€ million	206	266
Net profit/loss from ordinary activities	€ million	160	186
Tax expense/ tax income (-)	€ million	12	16
Profit transferred under a profit/loss transfer agreement	€ million	131	154
Operating results (net profit/loss from ordinary activities plus changes in the equalization reserve)	€ million	199	181
Capital, reserves and underwriting provisions			
Equity	€ million	407	287
Subordinated liabilities	€ million	250	250
Equalization reserve and similar provisions	€ million	685	645
Other underwriting provisions*	€ million	4,509	4,298
Grand total	€ million	5,851	5,481
of earned premiums for own account	%	497.0	468.3
Ratio of underwriting provisions for own account	%	340	327.7
Insurance contracts	in 1,000	629	592
Reported claims	in 1,000	218	214
Headcount	FTEs	1,813	1,840

* excluding provision for premium refunds

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Report of the Supervisory Board

The Supervisory Board monitored the conduct of the business by the Board of Management in the past financial year 2010 on a continuous basis in accordance with the law and the articles of incorporation and arranged for comprehensive information about business developments and the financial condition of the Company to be presented by the Board of Management at its regular meetings on 14 April 2010 and 27 October 2010, as well as in regular written and verbal reports. The Chairman of the Supervisory Board was further informed by the Chairman of the Board of Management about important developments and upcoming decisions on a regular basis. The Supervisory Board generally participated in the decisions of the Board of Management within the scope of its legal and statutory responsibility and assured itself that the management of the company was conducted in a manner that was lawful, proper, appropriate and profitable.

In the 2010 financial year, the Board of Management presented regular reports on the current financial year and the business and financial performance of the Company as well as the restructuring of the Talanx Group in connection with Project Focus.

Other key topics for the deliberations of the Supervisory Board were the reports of the Board of Management on the Company's

globalization strategy as well as the planning for the 2011 financial year. As part of the written and verbal reporting, the Supervisory Board was also informed about risk management at the Company, about its risk situation as well as any changes that had occurred together with their causes.

To the extent that the transactions and measures taken by the Board of Management require the approval of the Supervisory Board in accordance with the law, the articles of incorporation and the rules of procedure, resolutions to that effect were adopted after a review and deliberations. In the 2010 financial year, the Supervisory Board approved the acquisition of Nassau Verzekering Maatschappij N.V. (the Netherlands) among other measures. The Supervisory Board further adopted a new structure for the system of remuneration for the Board of Management.

Audit of the annual financial statements

The Annual Financial Statements as at 31 December 2010 as well as the Management Report presented by the Board of Management, including the accounting, were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The audit did not lead to any reservations. The unqualified audit opinion states that the accounting and the annual financial statements present fairly, in all material

respects, the net assets, financial position and results of operations and that the management report is consistent with the annual financial statements. The documentation for the annual financial statements and the KPMG AG audit reports were forwarded to all Supervisory Board members on a timely basis. The independent auditor was present at the meeting that discussed the annual financial statements, reported on the conduct of the audit, and was available to the Supervisory Board to provide further information. In accordance with the final result of the review of the annual financial statements and the management report undertaken by the Supervisory Board, we concurred with the auditor's opinion and approved the annual financial statements as prepared by the Management Board on 29 March 2011, which are thereby adopted. The management report, and in particular the statements made therein regarding the future development of the Company, were also approved.

Changes in the Supervisory Board

Dr. Immo Querner resigned from his office effective 31 December 2010. At an extraordinary General Meeting on 27 October 2010, the shareholders elected Mr. Wolfgang Brinkmann as a member of the Supervisory Board effective 1 January 2011.

Changes in the Board of Management

The appointment of Mr. Thomas Emmert to the Board of Management was terminated by mutual agreement with effect from 31 December 2010. The Supervisory Board expressed its thanks to Mr. Emmert and acknowledged his contributions on the Company's Board of Management.

On 27 October 2010, Dr. Joachim ten Eicken was appointed as a member of the Company's Board of Management with immediate effect. In addition, Dr. Stefan Sigulla was appointed as a member of the Board of Management effective from 1 January 2011.

The Supervisory Board wishes to thank the members of the Board of Management and all employees for their contribution during the reporting period.

Hannover, 29 March 2011

For the Supervisory Board

Herbert K. Haas
(Chairman)

Supervisory Board

Herbert Haas

Chairman of the Board of Management of
Talanx AG,
Burgwedel
Chairman

Dr. Erwin Möller

Chairman of the Supervisory Board of
M. M. Warburg & Co. Gruppe KGaA,
Hannover
Deputy Chairman

Hans-Joachim Birg*

Employee,
Wedemark

Wolfgang Brinkmann

Managing Partner of
Bugatti GmbH,
Herford
(from 01.01.2011)

Jutta Mück*

Employee,
Oberhausen

Dr. Immo Querner

Member of the Board of Management of
Talanx AG,
Hannover
(until 31.12.2010)

Ulrich Weber

Member of the Board of Management for
Human Resources
Deutsche Bahn AG
DB Mobility Logistics AG,
Berlin

Board of Management

Dr. Christian Hinsch

Chairman
Internal Audit, Press and
Public Relations, Legal Affairs

Rolf ABhoff

Business segment: Corporate
Liability insurance
(until 31.03.2011)

Thomas Emmert

Human Resources
(until 31.12.2010)

Gerhard Heidbrink

Business segment: Industry,
Motor vehicle insurance

Karl-Gerhard Metzner

Transport-, credit-, casualty- and
aviation insurance
Information management for
the Industry Business Segment

Dr. Stefan Sigulla

(from 01.01.2011)

Dr. Joachim ten Eicken

Property insurance
Technical insurance

Jens Wohlthat

Business segment: International

Ulrich Wollschläger

Finance

Economic and business climate

Business operations

The Company

As an industrial insurance company, HDI-Gerling Industrie Versicherung AG meets the needs of industrial and commercial customers with insurance solutions that are specifically tailored to their requirements. Beyond its prominent presence in the German market, the Company conducts significant activities in more than 130 countries through foreign branch offices, subsidiaries and affiliated companies as well as a network of partners. The Company is thus able to offer its customers local policies for their global operations, which ensure that the established standard of service and insurance protection is extended for all covered risks world-wide.

Economic environment

Macroeconomic development

2010 was characterized by both the global economic recovery and the sovereign debt crisis. The development took a largely heterogeneous course worldwide: The emerging markets and those developed countries with close ties to the emerging world via strong export relations, first and foremost Germany, recorded a marked upturn. In contrast, escalating budgetary deficits and the corresponding austerity measures hampered growth in some countries on the euro periphery.

The sovereign debt crisis had been triggered by the downgrading of Greece's credit rating and the subsequent rapid increase of the risk premiums on Spanish, Portuguese, Irish and, during the course of the year, Italian bonds. The EU and the International Monetary Fund (IMF) compiled a rescue package for Greece and also resolved to establish an emergency facility for troubled euro countries, which consisted of loan commitments. By accepting loans to the tune of EUR 85 billion, Ireland became the first country to avail itself of this facility in November.

In the US, the unemployment rate remained at a high of 9.4%, only 0.5% below its level as at the end of 2009. The only bright spot across all reporting seasons is compelling corporate profits, which reflected the US economy's third-quarter 3.2% growth year-on-year. The euro zone generated 1.9% growth over the same period. Within the euro zone, Germany acted as the driver of economic growth, growing by 3.6% on an annualized basis.

Despite massively expansive monetary intervention by the central banks in both the US and the euro zone, inflation remained at moderate levels in both regions, with the US inflation rate standing at 1.1% in November 2010 year-on-year, the euro zone inflation rate at 1.9% and the UK inflation rate at 3.3%. In the UK, however, a VAT hike coupled with currency effects played a significant role. Core inflation fell to historical lows during 2010, reaching 0.8% in the US in November, 1.1% in the euro zone and 2.5% in the UK.

The EUR/USD exchange rate plummeted from 1.43 to 1.19. However, the rescue package for Greece and the subsequent creation of a rescue fund for ailing euro zone member states provided the common currency with some respite. As a result, the euro recovered to a level of USD/EUR 1.34 by the end of the year. The development of the GBP/EUR exchange rate largely mirrored this trend: From an exchange rate level of GBP/EUR 0.89, the rate fell to GBP/EUR 0.81 over the course of the year, recovering at year-end to GBP/EUR 0.86.

Capital markets

The Federal Reserve and the European Central Bank continued their extremely accommodative monetary policy during 2010. Leaving its headline interest rate unchanged, at almost zero, the US central bank resolved during Q3 to invest any funds from maturing securities in US treasuries. This was followed by the announcement of further monetary expansion through the additional acquisition of government bonds in November. The Fed intends to purchase government bonds totaling approx. USD 900 billion by mid 2011. These unprecedented measures were triggered by fears of a new recession in the US.

Likewise, the ECB also kept its foot on the accelerator during 2010, leaving the fixed rate for main refinancing operations at 1% and conducting tender operations with full allotment. Furthermore, the ECB also started purchasing government bonds. This step, which was a first for the ECB, was justified by the temporarily restricted functioning of the markets: The intention was not to expand the money supply, but to keep it at a constant level via offsetting transactions.

Following a quiet first quarter characterized by yields moving sideways, the debt crisis along the euro periphery became more prominent over the months that followed. This led to a flight to low-risk asset classes among market participants.

The government bond markets of AAA core countries, Germany in particular, benefited from this development. As a consequence of market participants' risk aversion, ten-year EMU government bond

yields fell repeatedly to a level just over 2% between April and August. At the same time, the risk premiums on government bonds from the euro periphery widened significantly. While subsequent comprehensive rescue packages repeatedly calmed the market, albeit only temporarily, concerns among market participants remained, and still remain, very high overall.

Concurrent with the implementation of the German Act on the Reorganization of Banks (Bankenreorganisationsgesetz) in early November, the credit market segment also saw a considerable widening of credit spreads. Given the positive economic development, particularly in Germany, yields climbed markedly on the fixed-income side during this period. Ten-year bunds hovered just under 3% at year-end. All relevant euro bond markets concluded the year with a positive performance.

Developments in the developed equity markets were characterized by the sovereign debt crisis throughout 2010. A brief consolidation phase at the beginning of the year was followed by another upswing from February onwards, which ended at the beginning of Q2 in the face of the emerging governing debt problem. While the third quarter saw a consistent sideways movement, a year-end rally took place during the final quarter 2010, pushing almost all indices to new highs.

The disparate economic development was reflected in the equity indices: While the DAX closed the year +16% higher, driven by the strong performance of the German economy, the Euro Stoxx 50 was weakened over the course of the year by the sovereign debt crisis in the euro periphery and posted a negative performance of -2%. Compared to the previous year, the S&P 500 Total Return index moved up 14%.

While economic concerns negatively affected the equity markets, unexpectedly high corporate profits and increased M&A activity in particular acted as positive growth drivers, along with the abundant supply of liquidity from central banks. In addition, the successful bank stress test at the beginning of the second half of the year also brought some relief.

Insurance business

The insurance industry has largely dealt very well with the financial and economic crisis, thus confirming its basic soundness.

The business performance of the property and casualty insurance segments, like in recent years, was predominantly characterized by continuing intense price competition against a backdrop of high market penetration, and by conspicuously cyclical business trends.

Many property insurance lines have been characterized for several years by persistent pronounced price competition as well as a continued moderate claims experience, which is a partial offset for the development of prices. Total premium income grew by 0.7 percent. Only the general liability and transport insurance segments recorded declining premiums. For the first time, even motor vehicle insurance, which is the largest line with a premium volume of EUR 20.1 billion, once again reported some – albeit small – growth in premiums.

Due to the improved financial position of private households and the economic recovery in industry, trade and the service sector, the casualty and accident insurance segment expects 1% premium growth in 2011. Demand on the corporate customer side proved to be very robust even through the financial crisis. But conversely, premiums are also not expected to climb in response to a more positive economic climate. Even if the market remains predominantly soft in many insurance lines, no insurance line forecasts further premium reductions. Motor vehicle insurance is again looking for 0.5% premium growth in 2011 as the market remains heterogeneous.

Business performance

Business performance of HDI-Gerling Industrie Versicherung AG

Gross premiums for the financial year (total)

€ million, %		
Liability insurance	889	35.1
Fire insurance	498	19.7
Other insurance	327	12.9
Motor vehicle insurance	274	10.8
Technical insurance	235	9.3
Transport and aviation insurance	223	8.8
Casualty insurance	85	3.3
Total	2,530	100.0

The gross premiums written by HDI-Gerling Industrie Versicherung AG of EUR 2,530 million (prior year: EUR 2,524 million) reflected a slight improvement of EUR 6 million. The performance of the individual categories varied; while the intensively competitive market environment in transport and aviation insurance as well as technical insurance caused some unavoidable premium erosion, other categories, such as liability and motor vehicle insurance were able to realize premium increases. Performance was further marked by the transfer of a portfolio of legal protection insurance policies from our sister company HDI-Gerling Rechtsschutz-Versicherung-AG, which is reported under other insurance. The gross premiums written for legal protection insurance were close to EUR 18 million; no premiums were reported for the comparison period.

Net premiums earned rose by EUR 7 million to EUR 1,177 million (prior year: EUR 1,170 million); the major reasons are the virtually complete recognition of the legal protection insurance premiums and selectively higher amounts retained for own account on the one hand, and the higher prices for reinsurance, especially for the business accepted for reinsurance, on the other hand.

Gross expenses also rose year-on-year by EUR 35 million to EUR 1,642 million (prior year: EUR 1,607 million). This also reflects various effects: While claims expenses in the business accepted for reinsurance declined significantly, a number of categories experienced a higher claims burden than in the prior year, which saw a largely favorable development; in addition, amounts that were more than insignificant were retroactively appropriated to reserves in several categories. The gross loss ratio rose slightly to 64.9% (prior year: 64.0%).

Insurance business (total)

	2010	2010	2009	2009
€ million	Gross	Net	Gross	Net
Premiums	2,530	1,192	2,524	1,138
Earned premiums	2,531	1,177	2,509	1,170
Claims expenses	1,642	885	1,607	931
Underwriting expenses	488	281	505	266
Net underwriting result for own account		-46		-81
in %				
Loss ratio	64.9	75.1	64.0	79.5
Expense ratio	19.3	23.9	20.1	22.8
Combined ratio (loss/expense ratio)	84.2	99.0	84.1	102.3

By contrast, the net expenses for claims incurred decreased by EUR 46 million to EUR 885 million (prior year: EUR 931 million.) This was driven by a very favorable claims experience in the business accepted for reinsurance; here, net expenses declined by more than EUR 100 million, which was partly offset by opposite trends in the direct written business in these categories. The effects included the profit from reinsurance due to the unwinding of a quota share reinsurance agreement in the motor vehicles category among other factors. The overall net loss ratio improved by 4.4 percentage points to 75.1% (prior year: 79.5%).

Gross underwriting expenses were successfully reduced by EUR 17 million to EUR 488 million (prior year: EUR 505 million). The gross expense ratio declined slightly to 19.3% (prior year: 20.1%) while the net expense ratio rose slightly to 23.9% (prior year: 22.8%). The gross combined (loss /expense) ratio was equal to 84.2% (prior year: 84.1%) while the net combined ratio was 99.0% (prior year: 102.3%)

On balance, our Company was able to report a year-on-year improvement of EUR 35 million in the underwriting result to a net loss of EUR 46 million (prior year: a net loss of EUR 81 million), which includes an appropriation to the equalization reserve of EUR 39 million (prior year: a withdrawal of EUR 5 million.)

Liability insurance

Liability insurance

	2010	2010	2009	2009
€ million	Gross	Net	Gross	Net
Premiums	669	260	664	224
Earned premiums	680	252	675	268
Claims expenses	485	178	484	237
Underwriting expenses	104	61	116	51
Net underwriting result for own account		-22		-37
in %				
Loss ratio	71.4	70.6	71.7	88.4
Expense ratio	15.3	24.0	17.2	19.2
Combined ratio (loss/expense ratio)	86.7	94.6	88.9	107.6

In the industrial liability insurance segment, HDI-Gerling Industrie Versicherung AG recorded a slight increase of EUR 5 million in gross premiums written to EUR 669 million (prior year: EUR 664 million). However, this development was not uniform throughout the segment. While, in particular, it was possible to achieve premium increases in the comprehensive general liability insurance line for insurance agreements with a high claims burden, the Company decided not to underwrite risks where premium adjustments in the context of previous loss histories could not be enforced. The acquisition of the insurance business from the former second-tier subsidiary HDI-Gerling Australia Insurance Company Pty Limited (GAUS) in the third quarter of the financial year should also be noted, even though it has not yet had a significant effect on gross premiums. On balance the effect described above more than offset premium erosions.

Net earned premiums, which included an amount of EUR 26 million in reinsurance premiums for reinstatements, decreased by EUR 16 million to EUR 252 million (prior year: EUR 268 million). The above-referenced insurance agreements are related to single risks subject to high reinsurance, for which the reinsurance coverage did not increase simultaneously.

Gross expenses for claims incurred changed little and were recorded at EUR 485 million (prior year: EUR 484 million). This stable overall picture comprises a number of offsetting effects. The significant additions to reserves that were required for major individual losses were offset by run-off profits in other areas, as well as the reversal of provisions for unknown losses incurred but not reported, so that the financial year produced a net run-off profit, though this remained clearly below the run-off profit reported in the previous year.

This contrasted with the favorable claims experience for the financial year, which offset the reduction in the run-off result. The gross loss ratio saw only a minor change by 0.3 percentage points to 71.4% (prior year: 71.7%).

The net expenses for insurance claims incurred decreased significantly by EUR 59 million to EUR 178 million (prior year: EUR 237 million) due to the high level of reinsurance recoveries for the retroactive appropriations to reserves and the lower share of the reinsurers in the run-off profits when compared to the previous year. In addition, a reinsurance share in the loss reserve just short of EUR 10 million was reversed in connection with last year's unwinding of a reinsurance agreement, which improved the reinsurance result, although it had a neutral effect on the overall results of our Company. The overall net loss ratio improved by 17.8 percentage points to 70.6% (prior year: 88.4%).

Gross underwriting expenses fell significantly to EUR 104 million (prior year: EUR 116 million), which was a reduction of EUR 12 million. However, the internal cost savings of the Company were offset by a lower share for the reinsurers, so that the net underwriting expenses increased by EUR 10 million to EUR 61 million (prior year: EUR 51 million). The expense ratios reflected this development in an improvement of the gross ratio by 1.9 percentage points to 15.3% and a deterioration of the net ratio by 4.8 percentage points to 24.0% (prior year: 19.2%).

Based on the developments described above, the combined (loss/expense) ratio reflected an improvement in the gross ratio to 86.7% (prior year: 88.9%) as well as the net ratio to 94.6% (prior year: 107.6%).

After additions to the equalization reserve of EUR 10 million (prior year: a withdrawal of EUR 20 million) the liability insurance segment generated a net underwriting loss of EUR 22 million (prior year: a net underwriting loss of EUR 37 million).

Fire insurance

Fire insurance

	2010	2010	2009	2009
€ million	Gross	Net	Gross	Net
Premiums	255	70	250	50
Earned premiums	266	76	253	54
Claims expenses	121	52	67	13
Underwriting expenses	47	17	49	16
Net underwriting result for own account		18		22
in %				
Loss ratio	45.6	68.4	26.7	25.1
Expense ratio	17.6	22.0	19.6	30.7
Combined ratio (loss/expense ratio)	63.2	90.4	46.3	55.8

Gross premium income in the industrial fire insurance and fire business interruption insurance achieved a slight increase in the financial year to EUR 255 million (prior year: EUR 250 million). This is partly due to the reclassification of agreements that are now reported under fire insurance (previously under other insurance). This resulted in an increase in premiums of approx. EUR 5 million. The financial year also saw a slight shift between the German core market and the international markets. A generally moderate reduction in gross premiums in Germany contrasted with welcome increases in almost all foreign markets.

Net earned premiums rose at a faster rate than gross premiums by EUR 22 million to EUR 76 million (prior year: EUR 54 million). This development is attributable firstly to a lower level of premiums ceded for reinsurance due to a higher share retained for own account under the obligatory reinsurance programs on the one hand, and secondly to a decision to forego other reinsurance components.

Gross expenses for claims incurred rose by EUR 54 million to EUR 121 million (prior year: EUR 67 million). Despite this relatively sharp increase, the claims experience for the financial year must be described as normal, but follows a year of extremely low losses. The comparison period had also been impacted by a special effect: Expenses for claims incurred were lowered by the proceeds from a recovery in connection with fire damages at the Düsseldorf Airport in 1996.

The gross loss ratio was up rather sharply by 18.9 percentage points, but remained within the acceptable range.

Net expenses for claims incurred were also noticeably higher: at EUR 52 million (prior year: EUR 13 million) they climbed by EUR

39 million, which was driven by significantly higher profits ceded to the reinsurance in connection with the settlement of long-tail claims. The net loss ratio rose accordingly by 43.3 % percentage points to 68.4% (prior year: 25.1%).

Gross underwriting expenses were further reduced in the financial year just ended to EUR 47 million (prior year: EUR 49 million). The gross cost ratio dropped to 17.6% (prior year: 19.6%). Expenses for own account were virtually constant at EUR 17 million (prior year: EUR 16 million). The net expense ratio improved noticeably to 22.0% (prior year: 30.7%) as a result of the higher premium income.

The combined (loss/expense) ratios moved in parallel, rising to 63.2% (prior year: 46.3%) for the gross ratio and to 90.4% (prior year: 55.8%) on a net basis, still remaining clearly below 100%.

For the overall fire insurance category, the Company realized a net underwriting result in the amount of EUR 18 million (prior year: EUR 22 million) which included a withdrawal of EUR 10 million from the equalization reserve.

Motor vehicle insurance

Motor vehicle insurance

	2010	2010	2009	2009
€ million	Gross	Net	Gross	Net
Premiums	272	247	261	239
Earned premiums	275	249	261	239
Claims expenses	248	234	222	215
Underwriting expenses	51	47	51	47
Net underwriting result for own account		-28		-12
in %				
Loss ratio	90.4	93.8	85.1	89.9
Expense ratio	18.6	18.9	19.4	19.5
Combined ratio (loss/expense ratio)	109.0	112.7	104.5	109.4

Gross premiums written in the motor vehicle category were successfully increased by EUR 11 million to EUR 272 million (prior year: EUR 261 million) in what remains a difficult market environment. HDI-Gerling Industrie Versicherung AG was able to expand its position in the segment of fleets with more than 200 vehicles. It maintained its two-thirds share of the market for DAX-companies [DAX: German Stock Index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange]. Net earned premiums rose in almost the same way as premiums to EUR 249 million (prior year: EUR 239 million).

Gross expenses for claims incurred rose by EUR 26 million to EUR 248 million (prior year: EUR 222 million). In addition to the higher claims burden associated with the economic recovery, this is also due to the fact that the long extended cold-weather period in 2009/2010 and the early onset of winter in December meant two weather periods with generally higher claims frequencies during the past financial year. In addition, a recent court ruling regarding the inclusion of trailers under liability in certain motor vehicle insurance segments necessitated retroactive appropriations to reserves. The gross loss ratio rose by 5.3 percentage points to 90.4% (prior year: 85.1%).

Net expenses for claims incurred rose by EUR 19 million to EUR 234 million (prior year: EUR 215 million). This includes the reversal of a reinsurance share in the loss reserve just short of EUR 10 million, which was de-recognized in connection with the unwinding of a quota-share reinsurance agreement and which lowered the reinsurance recoveries for gross expenses for claims incurred. The net loss ratio was equal to 93.8% (prior year: 89.9%). As underwriting expenses remained virtually constant at EUR 51 million (prior year: EUR 51 million) while premium income rose at

the same time, the gross expense ratio declined to 18.6% (prior year: 19.4%). The net expense ratio followed this trend and also improved slightly to 18.9% (prior year: 19.5%).

The combined (loss/expense) ratios reflected the developments described above and were recorded as 109.0% (prior year: 104.5%) for the gross ratio and 112.7% (prior year: 109.4%) for the net ratio.

On balance, this resulted in a net underwriting loss of EUR 28 million (prior year: EUR 12 million), which included a withdrawal from the equalization reserve in the amount of EUR 10 million (prior year: EUR 3 million).

Transport and aviation insurance

Transport and aviation insurance

€ million	2010	2010	2009	2009
	Gross	Net	Gross	Net
Premiums	203	154	234	178
Earned premiums	206	157	234	178
Claims expenses	167	133	180	123
Underwriting expenses	48	42	55	49
Net underwriting result for own account		3		-1
in %				
Loss ratio	81.1	84.9	76.9	69.3
Expense ratio	23.2	27.0	23.6	27.7
Combined ratio (loss/expense ratio)	104.3	111.9	100.5	97.0

The transport and aviation insurance segment recorded a decrease in gross premiums written of EUR 31 million to EUR 203 million (prior year: EUR 234 million). The insurance lines within the transport and aviation category had to contend with continuing intense competition, which resulted in a slight erosion of premiums against the background of an earnings-oriented underwriting policy. In transport insurance, moreover, the effects of the economic crisis were felt especially in revenue-based insurance agreements; here, lower customer sales resulted in lower premiums. In the Aviation insurance category, the decision to discontinue a business area operating at a loss led to a reduction in overall premiums, even though the core business could be expanded by the acquisition of new customer relationships. Net earned premiums declined by EUR 21 million to EUR 157 million (prior year: EUR 178 million).

Gross expenses for claims incurred fell by EUR 13 million to EUR 167 million (prior year: EUR 180 million), though it should be noted that the prior year for transport and aviation insurance was marked by a major loss resulting from the crash of a large airliner. In the financial year, the level of claims had decreased slightly in transport insurance, while the aviation category again suffered a major loss due to the crash of a cargo plane. However, the major factor for the change in total expenses was the significantly improved run-off result in the transport category.

The rise in the gross loss ratio to 81.1% (prior year: 76.9 percent) in spite of the favorable change in claims expenses is primarily attributable to the decline in premiums.

By contrast, net expenses for claims incurred rose by EUR 10 million to EUR 133 million (prior year: EUR 123 million) even through the plane crash during the financial year could in large

measure be passed on to the reinsurers. Here, too, the run-off result was the major factor: In this financial year, a slight profit had to be ceded to the reinsurers, while the latter had participated in losses from long-tail claims in the comparison period. The net loss ratio rose by 15.6 percentage points to 84.9% (prior year: 69.3%).

Gross underwriting expenses could be lowered to EUR 48 million (prior year: EUR 55 million) due to the reduction in commissions written for new and existing policies. Net underwriting expenses of EUR 42 million (prior year: EUR 49 million) reflected a proportional change. Given the changes in premiums, the expense ratio moved only slightly lower to 23.2% (prior year: 23.6) on a gross basis and to 27.0% (prior year: 27.7%) on a net basis.

The overall combined (loss/expense) ratio rose to 104.3% (prior year: 100.5%) as the gross ratio and to 111.9% (prior year: 97.0%) as the net ratio.

After a withdrawal from the equalization reserve in the amount of approximately EUR 19 million (prior year: an addition of EUR 5 million), the segment was able to report a slight underwriting profit of EUR 3 million (compared to a loss of EUR 1 million in the prior year).

Technical insurance

Technical insurance

€ million	2010	2010	2009	2009
	Gross	Net	Gross	Net
Premiums	166	78	181	86
Earned premiums	170	88	184	92
Claims expenses	106	58	123	62
Underwriting expenses	39	16	46	20
Net underwriting result for own account		15		6
in %				
Loss ratio	62.4	66.2	66.7	67.3
Expense ratio	22.9	18.3	25.1	21.7
Combined ratio (loss/expense ratio)	85.3	84.5	91.8	89.0

The combined (loss/expense) ratios reflected the favorable performance on the expense side and were equal to 85.3% (prior year: 91.8%) for the gross ratio and 84.5% (prior year: 89.0%) for the net ratio. In total, the segment was able to report a significant year-on-year increase in net underwriting results of EUR 15 million (prior year: EUR 6 million).

The technical insurance lines encompass insurance for machinery, installation, construction services, existing structures, electronics and machinery warranties, as well as the respective associated business interruption insurance.

The gross premium income from the direct written business in these lines declined year-on-year to EUR 166 million (prior year: EUR 181 million). In addition to the continued intensive competition – which is a challenge for all lines of technical insurance – premiums eroded in the case of existing contractual relationships due to the implementation of captive solutions. With the reinsurance structure virtually unchanged, net earned premiums declined to EUR 88 million (prior year: EUR 92 million).

Gross expenses for claims incurred declined by EUR 17 million to EUR 106 million (prior year: EUR 123 million) while the claims experience relative to technical insurance was generally unremarkable during the financial year; in the case of business interruption insurance, the reported expenses for claims incurred during the financial year were slightly lower by comparison, and the run-off result was slightly improved. The gross loss ratio of 62.4% (prior year: 66.7%) was clearly lower year-on-year.

The net expenses for claims incurred of EUR 58 million (prior year: EUR 62 million) reflected a somewhat narrower decrease; the net loss ratio declined slightly to 66.2% (prior year: 67.3%).

Underwriting expenses could be lowered to EUR 39 million (prior year: EUR 46 million) on a gross basis and to EUR 16 million (prior year: EUR 20 million) on a net basis. The cost ratios dropped in spite of the lower premium basis to 22.9% (prior year: 25.1%) gross and to 18.3% (prior year: 21.7%) net.

Casualty insurance

Casualty insurance

	2010	2010	2009	2009
€ million	Gross	Net	Gross	Net
Premiums	72	58	70	50
Earned premiums	75	61	75	55
Claims expenses	51	49	41	35
Underwriting expenses	18	16	20	16
Net underwriting result for own account		1		1
in %				
Loss ratio	68.3	80.8	54.9	63.2
Expense ratio	23.5	26.0	26.1	29.7
Combined ratio (loss/expense ratio)	91.8	106.8	81.0	92.9

The casualty segment includes the general accident, motor vehicle passenger accident, clinical trials and aviation accident insurance lines. By far the largest share of gross premium income is attributable to the general accident insurance line, which is, in turn, driven by group casualty insurance.

The casualty insurance segment reported an increase in gross premiums written to EUR 72 million (prior year: EUR 70 million). This favorable variance was attributable to clinical trials insurance. The consistently high service quality has led to a consistent expansion of this business. Premiums in the other lines were relatively stable. Net earned premiums also reflected a favorable change, showing a slightly more than proportional gain of EUR 6 million to EUR 61 million (prior year: EUR 55 million.)

Gross expenses for claims incurred rose by EUR 10 million to EUR 51 million (prior year: EUR 41 million). This was partly due to a higher claims burden on the one hand, and on the other hand to a different approach to reserves; this is mainly driven by a retroactive appropriation to reserves for group casualty insurance at an international branch office as well as selective additions to reserves in the clinical trials insurance line. The remaining casualty insurance lines saw virtually no change from the prior year. The gross loss ratio deteriorated by 13.4 percentage points to 68.3% (prior year: 54.9%).

Net expenses reflected a slightly more pronounced increase of EUR 14 million to EUR 49 million (prior year: EUR 35 million). The net loss ratio was equal to 80.8% (prior year: 63.2%).

Gross underwriting expenses were successfully reduced in the financial year just ended to EUR 18 million (prior year: EUR 20 million). The gross loss ratio rose slightly to 23.5% (prior year: 26.1%). Net expenses remained virtually constant at EUR 16 million (prior year: EUR 16 million); the net expense ratio improved by 3.7 percentage points as a result of the stronger premium base to 26.0% (prior year: 29.7%).

Due to the higher gross loss ratio, which more than offset the compensating effect in relation to the gross expense ratio, the combined (loss/expense ratio) rose to 91.8% (prior year: 81.0%) on a gross basis and to 106.8% (prior year: 92.9%) on a net basis.

After a withdrawal from the equalization reserve in the amount of EUR 6.3 million (prior year: an addition of EUR 2.8 million), the casualty insurance business produced a slightly improved net underwriting profit equal to EUR 1 million (prior year: EUR 1 million) after rounding.

Other insurance

Other insurance

including all-risk and extended coverage

	2010	2010	2009	2009
€ million	Gross	Net	Gross	Net
Premiums	258	105	252	77
Earned premiums	265	104	258	81
Claims expenses	199	129	146	79
Underwriting expenses	60	31	57	22
Net underwriting result for own account		-57		-27
in %				
Loss ratio	74.9	124.3	56.6	98.1
Expense ratio	22.4	29.7	22.2	26.6
Combined ratio (loss/expense ratio)	97.3	154.0	78.8	124.7

Insurance categories that, given the volume of business, are not required to be reported separately, are combined under other insurance. The most important aspects of this segment relate to industrial risks in the all-risk and extended coverage (EC) insurance categories. These also include the multi-line and multi-risk products that span across insurance lines. As of 1 January of the financial year, industrial legal protection insurance, which was transferred in from our sister company HDI-Gerling Rechtsschutz Versicherung AG, is also reported under other insurance.

Gross premiums written for other insurance categories reflected a moderate gain to a total of EUR 258 million (prior year: EUR 252 million) in the financial year. The individual insurance lines were characterized by different factors.

Firstly, the financial year included premiums of EUR 18 million reported for legal protection insurance that had not been included in the comparison period.

The all-risk property and all-risk business interruption lines recorded an increase in premiums to EUR 147 million (EUR 135 million) which resulted, however, in a virtually identical reduction in the extended coverage line: These shifts during the financial year are largely the result of conversion of pure industrial fire insurance coverage and extended coverage policies to the all-risk concept, which includes additional perils beyond fire or fire business interruption insurance.

In addition, gross premiums in the amount of approximately EUR 5 million were transferred to fire insurance in consequence of the conversion of certain insurance agreements.

Net earned premiums rose more sharply than gross premiums by EUR 23 million, which is mainly attributable to the low reinsurance level for the acquired legal protection insurance portfolio.

Gross expenses for claims incurred rose by a significant EUR 53 million in the financial year. This was caused by a number of factors: various mid-range major losses that occurred during the financial year as well as the EUR 13 million of expenses for claims incurred during the financial year in the legal protection insurance category, which had not yet been included in the comparison period. In addition, it was necessary to make retroactive appropriations to reserves for earlier years of occurrence as a result of retroactively applicable legal rulings, that led, in consequence, to an expansion of certain types of coverage in the extended coverage line. Accordingly, the gross loss ratio climbed sharply by 18.3 percentage points to 74.9% (prior year: 56.6%).

Net expenses for claims incurred rose by EUR 50 million to EUR 129 million (prior year: EUR 79 million) in line with developments on a gross basis. This was mainly due to the fact that net expenses reflected virtually all of the expenses for claims incurred during the financial year in the legal protection insurance line, as well as the less than proportionate share of the reinsurers in the retroactive appropriations to reserves. The net loss ratio rose by 26.2 percentage points to 124.3% (prior year: 98.1%).

The gross underwriting expenses were equal to EUR 60 million (prior year: EUR 57 million), thus rising only slightly; the increase due to expenses associated with the transfer of the legal protection insurance portfolio were partly offset by slight cost reductions in other areas. The gross expense ratio moved very slightly up to 22.4% (prior year: 22.2%). Net underwriting expenses rose by EUR 9 million or somewhat more steeply to EUR 31 million (prior year: EUR 22 million) since none of the legal protection insurance expenses were assumed by the reinsurers. The net expense ratio rose by 3.1 percentage points.

The combined (loss/expense) ratios reflected the trends described above and were recorded as 97.3% (prior year: 78.8%) for the gross ratio and 154.0% (prior year: 124.7%) for the net ratio. The net underwriting result reported for all other insurance lines combined was a net loss of EUR 57 million (prior year: a net loss of EUR 27 million), which was attributable to the claims experience in particular.

Other insurance – All risk only

€ million	2010		2009	
	Gross	Net	Gross	Net
Premiums	147	43	135	19
Earned premiums	146	38	141	23
Claims expenses	132	46	106	48
Underwriting expenses	30	9	25	0
Net underwriting result for own account		-16		-31
in %				
Loss ratio	90.2	122.4	75.6	213.1
Expense ratio	20.3	24.8	17.7	1.1
Combined ratio (loss/expense ratio)	110.5	147.2	93.3	214.2

Other insurance – Extended coverage only

€ million	2010		2009	
	Gross	Net	Gross	Net
Premiums	49	12	60	15
Earned premiums	58	17	61	14
Claims expenses	51	33	12	1
Underwriting expenses	13	5	18	8
Net underwriting result for own account		-21		5
in %				
Loss ratio	88.1	192.7	20.4	3.8
Expense ratio	22.1	30.0	29.7	57.9
Combined ratio (loss/expense ratio)	110.2	222.7	50.1	61.7

Business accepted for reinsurance (total)

Business accepted for reinsurance (total)

€ million	2010		2009	
	Gross	Net	Gross	Net
Premiums	635	219	612	233
Earned premiums	595	191	570	204
Claims expenses	265	52	344	166
Underwriting expenses	122	52	111	45
Net underwriting result for own account		23		-31
in %				
Loss ratio	44.6	27.0	60.3	81.4
Expense ratio	20.4	27.2	19.5	22.1
Combined ratio (loss/expense ratio)	65.0	54.2	79.8	103.5

The business accepted for reinsurance predominantly represents the share of foreign premiums from international insurance programs for which HDI-Gerling Industrie Versicherung AG acts as the lead or sole underwriter for its clients in Germany and abroad. The ceding companies in these cases are foreign units of HDI-Gerling Industrie Versicherung AG and subsidiaries of the Talanx Group, that have written fronting policies in the respective countries in accordance with the specifications of HDI-Gerling Industrie Versicherung AG, our subsidiary HDI-Gerling Welt Service AG, or member companies of the Royal Sun Alliance network.

Other sources of our indirect insurance business is the reinsurance of captives of German and selected international customers as well as the central underwriting, in Hannover, of international risks of large foreign companies.

The gross premium income of the business accepted for reinsurance in the financial year was equal to EUR 635 million (prior year: EUR 612 million). The major share of this was accounted for by the fire insurance category (including fire business interruption) at EUR 242 million (prior year: EUR 248 million), followed by liability at EUR 220 million (prior year: EUR 215 million) and the technical insurance lines at EUR 69 million (prior year: EUR 46 million). The share of the all-risk insurance lines (including business interruption) is also becoming increasingly important at EUR 67 million (prior year: EUR 54 million). However, net earned premiums declined by EUR 13 million to EUR 191 million (prior year: EUR 204 million) as a result of more expensive reinsurance.

Due to the continued favorable claims experience, gross expenses for claims incurred decreased by EUR 79 million to EUR 265 million (prior year: EUR 344 million). The gross loss ratio improved by 15.7 percentage points to 44.6% (prior year: 60.3%).

The net expenses for claims incurred fell even more sharply by EUR 114 million to EUR 52 million (prior year: EUR 166 million.) The net loss ratio improved by 54.4 percentage points to 27.0% (prior year: 81.4%).

Gross expenses for claims incurred rose by EUR 11 million to EUR 122 million (prior year: EUR 111 million). The gross expense ratio rose slightly to EUR 20.4% (prior year: EUR 19.5%). The increase in net expenses was an even more moderate rise of EUR 7 million to EUR 52 million (prior year: EUR 45 million; due to the slight decline in the premium base, the increase in the net expense ratio by 5.1 percentage points to 27.2% (prior year: 22.1%) was somewhat greater than that in the gross ratio.

In summary, the business accepted for reinsurance generated a net underwriting profit of EUR 23 million (prior year: a loss of EUR 31 million) that was a year-on-year improvement of EUR 54 million. Due to the positive performance, this includes an addition to the equalization reserve of EUR 65 million (prior year: EUR 25 million). The major driver of this result was the Fire category with a net underwriting result of EUR 25 million (prior year: EUR 1 million). Liability insurance was able to contribute a net profit of EUR 16 million (prior year: a net loss of EUR 12 million).

Business accepted for reinsurance – Liability insurance

	2010	2010	2009	2009
€ million	Gross	Net	Gross	Net
Premiums	220	59	215	106
Earned premiums	212	54	192	85
Claims expenses	37	8	145	89
Underwriting expenses	37	18	34	21
Net underwriting result for own account		16		-12
in %				
Loss ratio	17.4	15.2	75.5	104.1
Expense ratio	17.7	34.0	17.9	24.1
Combined ratio				
(loss/expense ratio)	35.1	49.2	93.4	128.2

Business accepted for reinsurance – Fire insurance

	2010	2010	2009	2009
€ million	Gross	Net	Gross	Net
Premiums	242	88	248	55
Earned premiums	230	75	247	60
Claims expenses	109	20	157	42
Underwriting expenses	43	13	42	5
Net underwriting result for own account		25		1
in %				
Loss ratio	47.7	26.1	63.5	69.3
Expense ratio	18.7	17.3	16.8	7.7
Combined ratio				
(loss/expense ratio)	66.4	43.4	80.3	77.0

Non-insurance business

Investment income

Investment income for the financial year rose to EUR 259 million (prior year: EUR 246 million). This development was mainly driven by the increase of EUR 16 million in income from equity investments to EUR 19 million (prior year: EUR 3 million) that was attributable to the contributions to earnings from the new subsidiaries.

The equity investments HDI Versicherung AG, Vienna, and HDI-Gerling Verzekeringen N. V., Rotterdam, which were acquired by our Company as of 1 January of the reporting period, contributed EUR 5 million and EUR 9 million, respectively, to the income from equity investments.

The result for extraordinary items, which comprise write-downs and reversals of write-downs, as well as gains and losses on the disposal of investments, was a net loss of EUR 9 million for the financial year (prior year: a net profit of EUR 39 million), which can be viewed as a return to normal levels after the extreme fluctuations in the past two years. The effects of the financial crisis were barely traceable in the investment results of the Company for this financial year.

Thus income from the reversal of write-downs was equal to no more than EUR 6 million compared to EUR 13 million in the prior year, which was still marked by reversals of write-downs taken during the crisis in the capital markets. The gains on the disposal of investments also declined by a significant EUR 29 million to EUR 11 million (prior year: EUR 41 million); the result for the comparison period had included significant sales of share-based funds.

The change in the net loss of EUR 26 million (prior year: net loss of EUR 15 million) recognized as the balance of write-downs and the disposal of investments was less extreme; the principal driver were the higher write-downs of investments by EUR 17 million (prior year: EUR 5 million), which were mainly caused by higher write-downs on real estate held for the Company's own use. The write-downs to be taken on securities were also higher than in the previous year. This affected fixed-interest bearer securities, which were impacted by the effect of the sovereign debt crisis in the Euro zone periphery; in addition, somewhat higher write-downs were also required for shares and share-based funds.

The total investment income (including underwriting interest income) for HDI Gerling Industrie Versicherung AG was equal to EUR 207 million (prior year: EUR 235 million.) The main factor in the decrease were the lower gains on disposals.

Other net income/expenses

The other net income/expenses for our Company reflected net expenses of EUR 1 million (prior year: a net income of EUR 32 million.) The balance of services rendered to and received from affiliated companies, which mainly involved claims processing, was EUR 0 million (prior year: EUR 1 million.) In the prior year, the net income was marked by the reversal of write-downs of reinsurance claims in the amount of EUR 54 million; this contrasts with EUR 29 million recognized as expenses for write-downs of reinsurance claims.

A total of EUR 48 million in other provisions, including provisions for impending losses, could be reversed during the financial year. This contrasted with a significant negative balance of currency translation gains and losses of approximately EUR 32 million (prior year: a net gain of EUR 7 million), which is driven to the corresponding movements in the loss reserves and reinsurance current accounts that are denominated in foreign currencies.

Net result for the HDI-Gerling Industrie Versicherung AG

	2010	2009
€ million		
Underwriting result for own account	-46	-80
Investment income (incl. underwriting interest)	207	235
Other net income/expenses	-1	32
Net profit/loss from ordinary activities	160	186
Net profit/loss from extraordinary items*	-17	-16
Taxes	-12	-16
Net profit/loss transferred to Talanx AG	131	154

* The breakdown of net profit/loss from extraordinary items is explained in the Notes.

In the financial year, HDI-Gerling Industrie Versicherung AG was able to transfer a net profit in the amount of EUR 131 million (prior year: EUR 154 million) to the parent company Talanx AG under the existing profit and loss transfer agreement.

Financial position

Investments

In the past year, the volume of investments (excluding deposits retained) grew by EUR 189 million to EUR 5,877 million (prior year: EUR 5,688 million.) Of that, EUR 66 million are related to the investments covering provisions for the legal protection insurance portfolio acquired retroactively as of 1 January 2010. The increase between 1 January 2010 and 31 December 2010 was equal to EUR 123 million; aside from the results generated in the general course of business, this included the inflow of cash funds in the amount of approximately EUR 30 million from the unwinding of a reinsurance relationship during the financial year as well as a total of EUR 152 million for the addition of shares in affiliated companies.

The fair value of the investments as of year-end was equal to EUR 6,364 million (prior year: EUR 5,843 million), creating a valuation reserve equal to EUR 487 million (prior year: EUR 155 million). The net rate of return on the investments was 3.57% (prior year: 4.25%).

The market values of fixed interest securities rose significantly in the course of the recovery in the bond and equity markets. As a result, hidden reserves related to these securities rose from EUR 81 million to EUR 111 million.

The share of fixed interest securities in total investments as of year-end was equal to 68.1% (prior year: 83.9%).

As of 31 December 2010, HDI-Gerling Industrie Versicherung AG had placed a share of 3.3% (prior year: 4.1%) of its investments in the equity markets. As of the reporting date, hidden reserves on these investments were equal to EUR 9 million. These stock portfolios have further been hedged since the start of the year under a two-stage stop-loss strategy that was already established in the prior year. In the summer, this was replaced by a three-stage stop-loss strategy, which also permits the use of stock index futures. However, the stop-loss limits had not been reached by the end of the financial year.

The bond fund portfolio was increased by EUR 77 million to EUR 668 million. The total portfolio is held in a special bond fund. This vehicle was increasingly used for investments in industrial bonds in order to generate higher ongoing returns than from government bonds or German mortgage bonds.

The majority of interest-bearing investments is held in direct portfolios that are primarily invested in covered registered mortgage

bonds and promissory note loans. These investments rely to a great extent on German federal and/or state government bonds. The average rating of the interest-bearing securities declined slightly year-on-year to AA- (prior year: AA), even though the share of securities rated AAA- was increased to 44% (prior year: 39%).

The decline in the average rating is attributable to the fact that the percentage of securities with BBB- and lower ratings was significantly increased as a result of rating downgrades.

The holdings of shares in affiliated companies and investments rose by EUR 152 million to EUR 322 million. This was mainly caused by restructurings within the Talanx Group, under which equity investments of our sister company Talanx International AG (formerly HDI-Gerling International Holding AG) that were predominantly active in the industrial insurance sector, were contributed to our Company. These were equity investments in HDI-Gerling Verzekeringen N. V., Rotterdam (carrying amount EUR 49 million), HDI Versicherung AG, Vienna (carrying amount EUR 36 million), and HDI Hannover International Espana Cia. de Seguros y Reaseguros, S. A., Madrid (carrying amount EUR 36 million).

Underwriting provisions

The underwriting provisions rose by EUR 251 million to EUR 5,205 million (prior year: EUR 4,954 million) The factors to be named in addition to the general course of business are the transfer of approximately EUR 77 million in underwriting provisions related to the existing industrial legal protection insurance portfolio from the sister company HDI-Gerling Rechtsschutz AG as well as the amount of approximately EUR 68 million related to the acquisition of the insurance business – mainly in the liability category – of the Australian sister company HDI-Gerling Australia Insurance Company Pty Limited (GAUS).

Our Company operates on an international level, and thus recognizes underwriting liabilities in foreign currencies. The impact of exchange rate movements on the level of loss reserves recognized as of 1 January of the financial year – which was reflected in the translation of the reserves denominated in foreign currencies at the rates in effect as of the balance sheet date – was equal to approximately EUR 328 million which was shown as an increase in the carrying amount of these provisions. Matched coverage on the asset side is ensured for underwriting liabilities denominated in foreign currencies on an ongoing basis as they change.

Other balance sheet items

The break-down of these and other line items on the balance sheet are explained in the Notes.

Personnel and social report

Economic, technological, cultural and social changes occur at an ever more rapid rate. Companies must therefore become more flexible and adaptable.

For this, they need qualified employees who are motivated to perform, who act on their own initiative and are ready to take charge. A successful human resources policy will ensure that the right staff is in the right place to meet today's and tomorrow's business challenges, because our employees are the critical success factor if HDI-Gerling Industrie Versicherung AG is to be competitive.

The human resources support for the property insurance companies of the Talanx Group is provided by Talanx Services AG (formerly HDI-Gerling Sach Serviceholding AG). The centralized human resources department coordinates group-wide measures and provides quality assurance with respect to uniformity. The company-specific human resources policy, on the other hand, is derived from the strategy of the respective entity to ensure that it is aligned with actual requirements.

In the reporting period, a major part of human resources activities centered on the project "Focus," which involved the organizational realignment of the Talanx Group. The realignment of the corporate segments in the primary insurance business was guided by the customer segments. Focus on the customer was the first priority for the realignment. Another important consideration was to strengthen the competitiveness of the Talanx Group, so that growth and profitability targets can be attained and secure jobs can be created for the long-term. The details of the necessary changes were developed in work-groups. This resulted in approximately 1,500 personnel moves throughout the entire Talanx Group.

Another focus of human resources support was personnel development, which was strengthened in 2010 in organizational and staffing terms. In the reporting period, training and career development programs once again offered many employees systematic skills development and opportunities to earn qualifications for their present – and more demanding future – assignments.

More than 15,000 continuing education days at the property insurance companies of the Talanx Group were devoted to insurance and specialized seminars, training in methods and conduct, IT and language courses.

The development and promotion of junior staff was a further core theme during the reporting period. Various trainee programs were conducted in the individual insurance categories. The trainee programs provide a solid overview of the theory and practice of industrial insurance in comprehensive one-year programs. These activities are designed to develop a sufficient number of appropriately qualified employees to expand the business and replace staff members who leave.

In consequence of demographic changes, the "competition for talent" is becoming ever more important. This means strengthening the ties of strong employees to our Company while also gaining new employees. To this end, our Company started the "Talanxise your career" campaign [a sustainable career development and optimization by choosing to work for the Talanx group of employees], revised our web-site and print advertising, and participated in many personnel marketing and recruitment fairs. An internship loyalty program was created and scholarship programs of the Talanx Foundation with selected universities were continued.

In 2010, the annual average headcount for HDI-Gerling Industrie Versicherung AG in 2010 was 1,812 employees (prior year: 1,840). The average age of the employees was 44.5 years (prior year: 44.5 years). The part-time employment ratio was 11.7% (prior year: 11.6%). The average length of service at the Company was 16.5 years (prior year: 16.7 years).

The Board of Management wishes to thank all employees for their high level of commitment. The success of the Company in the financial year just ended was only made possible by the great commitment and performance of the motivated and committed employees of HDI-Gerling Industrie Versicherung AG. We also owe thanks to all Co-determination bodies for their constructive cooperation in finding solutions for personnel, organizational and social challenges.

Other performance indicators

As a traditional industrial insurance company, HDI-Gerling Industrie Versicherung AG has deep-rooted ties to Germany's industry. Middle-market companies and Groups rely on its more than 100 years of experience, its specific functional know-how and comprehensive expertise in realizing industrial and commercial insurance solutions.

In the face of increasing internationalization, HDI-Gerling Industrie Versicherung AG is also increasingly supporting companies as they move into the international arena. Within the international network, insurance solutions tailored to their needs are developed and implemented through the Company's own entities or its partners. As in the German home market, customers can rely on specific contacts to support them and advise them about their concerns. In the domestic business, in particular, the associations are based on long-standing contacts that are characterized by reliable cooperation and mutual trust – be it in the area of claims adjustment or the implementation of risk management activities.

In the daily practice of HDI-Gerling Industrie Versicherung AG the activities of its subsidiary HDI-Gerling Sicherheitstechnik GmbH in the loss prevention area are an increasingly important factor. The Company and its engineers and scientists from a number of technical fields are taking on the task, in particular, of developing instruments for risk assessment, as well as risk minimization and risk management measures for the customers of HDI-Gerling Industrie Versicherung AG in particular.

In a departure from the standard market practice, the industrial insurance company retains 80 members of its regional industrial sales staff as permanent employees to ensure the high quality and continuity of direct advisory services for its business customers. In this connection, decentralized customer support guarantees a straight-forward decision making process and a regional presence close to the customer's place of business.

The cooperation with "preferred partners" has also been consistently and successfully continued when using brokers as the distribution channel. In this area, the series of „In Motion“ events was again well received. Topics focused on current developments in the motor vehicle insurance market, international solutions for the protection of vehicle fleets and security deficits along the transport chain. The recognized automotive expert Professor Ferdinand Dudenhöffer also spoke about key trends in the automotive industry.

The 2010 industry conference in Berlin also met with a very positive response. At this exclusive customer event, Dr. Christian Hinsch, Chairman of the Board of HDI-Gerling Industrie Versicherung AG, presented an impressive picture of the future of industrial insurance in the year 2020. Other Board members of the industrial insurance company also provided information about current trends – ranging from the potential for future developments in the industrial insurance business to new risk engineering challenges.

Among the broader public, HDI-Gerling Industrie Versicherung AG is recognized as part of the HDI-Gerling brand. The successful image campaign has helped to strengthen customer loyalty among the target customer groups. The focus has now shifted from the print sector to TV and the internet as target media. Other communication initiatives and sponsorships also contributed to greater name recognition of the Company and of the HDI-Gerling brand.

References to HDI-Gerling Industrie Versicherung AG were made in various media in connection with topics related to the industrial insurance industry. As in the prior year, the industrial insurance company also won first place in the "2010 Fleet Award" of the "Autoflotte" trade journal. This is simply one more confirmation of the Company's outstanding market position as fleet insurance provider in Germany. At the same time, the award is evidence that the insurance solutions offered by HDI-Gerling Industrie Versicherung AG are consistently persuasive to industrial customers.

Risk report

HDI-Gerling Industrie Versicherung AG offers its policyholders comprehensive insurance protection so that the assumption of risks represents the core of its business. Pronounced risk awareness is an indispensable prerequisite for managing these risks. In this context, the Company developed a variety of processes and instruments some time ago, that are used not only to recognize, assess and manage risk but also to identify opportunities.

In order further to improve the established risk management functionality and to meet the additional requirements of MaRisk VA (German Minimum Requirements for Risk Management of Insurance Undertakings) the activities under the Solvency II project initiated in 2009 were continued in the 2010 financial year. MaRisk is very closely aligned with the requirements under Solvency II, Pillar 2. As part of the Solvency II project, the various aspects of the Company's risk management system will be extensively tested and adjusted where necessary. An important challenge in this connection will be the further strengthening of network connections between the centralized independent risk controlling function and the centralized and decentralized areas and risk-relevant processes. Using a concept of roles, this effort places particular emphasis on the clear separation between the operating areas that manage risk and the centralized risk controlling function.

The monitoring procedures and decision-making processes of HDI-Gerling Industrie Versicherung AG are embedded within the standards of the Talanx Group, which encompass especially the preparation and auditing of the annual financial statements, the system of internal controls and the instruments of controlling.

Structural organization of risk management

The structural and organizational framework for the Company's risk management has been set out using a role concept that defines and delimits the rights and responsibilities for the HDI-Gerling property insurance companies, including HDI-Gerling Industrie Versicherung AG. The major risk management roles have been identified as follows: the Supervisory Board, the Board of Management, the Risk Committee, the Head of Risk Management, the Independent Risk Controlling function, the Risk Management Officers (in the operating business units), the Internal Audit function, the Compliance Organization as well as Talanx AG.

The Supervisory Board is to advise and monitor the Board of Management with respect to risk management within the framework of its statutory responsibilities and authority.

The Company's Board of Management is responsible for the introduction and continued development of the risk management systems as well as the risk strategy. It is also accountable for the assumption and management of significant risks by the Company, meaning, in particular, such measures and transactions that are of material importance to HDI-Gerling Industrie Versicherung AG or that are associated with a significant financial risk.

In doing so, the Board of Management is supported by the Risk Committee, which is formed at the level of the HDI-Gerling property insurance companies by representatives of the major domestic subsidiaries as well as selected head office areas. The major tasks of the Risk Committee include, for example, the coordination of risk control measures, the analysis of risk positions of the property insurance companies, with particular regard to the risk strategy adopted by the Board of Management, the quarterly reporting of risk positions as well as the preparation of draft resolutions for adoption by the Board of Management.

The roles of the Head of Risk Management include, inter alia, the coordination of activities of the independent Risk Controlling function, the organization and substantive preparation of Risk Committee meetings as well as the responsibility for the content and preparation of the risk report.

The activities of the independent Risk Controlling function are focused on the identification and assessment of risks at the aggregate level, including the validation of the risk assessments made by the Risk Management Officers. The preparations for risk reporting, including statements about the utilization of existing limits and thresholds as well as the regular quantitative analysis of risk bearing capacities also fall within the scope of their responsibilities. The findings of the qualitative and quantitative risk analyses flow into earnings performance analyses through the network of links between the independent risk controlling function and the centralized and decentralized controlling areas, thus creating the conditions for weighing risk against earnings from a business management perspective.

The information provided by the Risk Management Officers serves as an essential foundation for the activities of the independent Risk Controlling function. They include representatives from all areas within the Company. A major focus of their activities within the context of risk management is the identification and analysis of risks within their respective area as well as the management – separate from the Independent Risk Controlling function – of the major risks within their respective areas.

Within the risk management framework, the Internal Audit function is mainly responsible for the systematic and goal-oriented evaluation of the effectiveness of risk management and of the internal controls as well as the management and monitoring processes. It is currently conducting an internal audit monitoring the Solvency II project.

Talanx AG establishes the risk management framework for the entire Group in accordance with its authority to set corporate policy. It is informed about the risk profile of the Company at all times on the basis of risk meetings convened every quarter in conjunction with the existing risk reporting systems and close communications.

Risk controlling process

Based on the Company's risk strategy targets, which are consistent with those of Talanx AG, as well as the objectives of its own business strategy, the Company's risk-bearing capacity is regularly reviewed and reported to the Board of Management throughout the year. The analyses regularly include the output of the Talanx capital risk model as well as the current mandatory regulations under supervisory law in their considerations. The most important key performance indicator in the Talanx capital risk model is the excess, expressed as a percentage, of the capital available for risk coverage over the capital at risk.

Operationally, these quantitative findings are implemented as a system of limits and thresholds, which facilitates the use of appropriate indicators as the basis for a supporting function for the controlling of major risks to the Company.

Within the framework of the qualitative risk management process, HDI-Gerling Industrie Versicherung AG focuses on significant risks. As a general rule, the single risks named by the Risk Management Officers are aggregated into a report on risks and opportunities attached to future developments. In the 2010 financial year, quarterly meetings were additionally convened with the business areas to discuss the current risk position of the Company and of the other HDI-Gerling property insurance companies on the basis of risks identified with the aid of an automated system.

Another qualitative risk control instrument used by HDI-Gerling Industrie Versicherung AG is the survey of future risks, also referred to as emerging risks. Emerging risks are risks that, due to their anticipatory nature, do not have a specific impact at the present time, but which are likely to have a long-term effect on the Company's risk situation.

The findings from the qualitative and quantitative analyses of the risk position serve as the basis for an internal risk report that is prepared quarterly by HDI-Gerling Industrie Versicherung AG

within the framework of the common risk reporting by the HDI-Gerling property insurance companies. Since the 3rd Quarter 2010, the internal risk report has been prepared – in anticipation of the future structure of the Talanx Group – for the future HDI-Gerling industrial insurance segment, and thus excluding HDI-Gerling Firmen und Privat Versicherung AG, HDI Direkt Versicherung AG, HDI-Gerling Rechtsschutz Versicherung AG and Talanx International AG (formerly HDI-Gerling International AG).

This ensures that an overview of the Company's risk situation can be provided at all times. The qualitative findings can further be used to validate the quantitative models and thus to verify the actual risk bearing capacity of the Company.

The risks to which HDI-Gerling Industrie Versicherung AG is exposed are aggregated into risk categories. The chosen categorization fully covers the risk categories under MaRisk VA. It further facilitates the reconciliation with the categories in the quantitative calculations of the risk bearing capacity for the HDI-Gerling property insurance companies. These risk categories therefore serve to ensure that there is a link between quantitative risk-bearing capacity and qualitative single risk analysis, being the two key risk management levels. They further facilitate the reconciliation with the risk categories under the German Accounting Standard DRS 5-20, in which the risks of insurance companies are classified as follows for external reporting: Underwriting risks, default risk in the insurance business, investment risk, operational risk and other risk.

These will be discussed below:

Underwriting risk

Underwriting risk derives primarily from the premium/loss risk and the reserving risk.

In the property / casualty insurance category the premium/loss risk refers to the risk of having to pay future indemnification from insurance premiums that have been fixed in advance, but that, due to their limited predictability, are not known with certainty when premiums are set (risk of random loss and change.) To limit this risk, HDI-Gerling Industrie Versicherung AG uses actuarial models, in particular for the setting of rates, monitors the claims experience on a regular basis and obtains reinsurance coverage. The following table shows the development of the loss ratio for own account:

Loss ratio for own account

Expenses for claims incurred as % of earned premiums	
2010	75.2
2009	79.5
2008	68.3
2007	80.5

The reserving risk refers to the risk that underwriting provisions will not be sufficient to settle all unsettled and unreported claims in full. In order to lower this risk, the level of reserves is regularly reviewed on a period-by-period basis and the run-off results are monitored. A provision is recognized in addition for losses incurred but not yet reported. The following table shows the run-off of the initial loss reserve in percent, in each case as of 1 January, with the latter adjusted for exchange rate fluctuations.

Run-off result

Run-off of the initial loss reserve in percent	
2010	7.7
2009	4.5
2008	8.1
2007	9.8

HDI-Gerling Industrie Versicherung AG seeks, in particular, to mitigate the potential effect of a simultaneous occurrence of natural disasters within the context of underwriting risk by obtaining adequate reinsurance cover on behalf of the Company for peak claims.

In addition, it uses loss analyses, natural disaster models, selective underwriting and regular monitoring of the claims experience to control and reduce risk.

Default risk under the insurance business

Receivables from the insurance business are potentially subject to default. This encompasses mainly receivables from reinsurers, policy holders and insurance agents.

In this connection HDI-Gerling Industrie Versicherung AG reduces the risk of a loss of receivables from reinsurers by carefully choosing the reinsurers via a Group-owned reinsurance broker, by paying particular attention to their credit worthiness, and if necessary by taking suitable measures to obtain surety for the receivables. Depending on the nature and the expected run-off period of the reinsured business, the selection of the reinsurers is based, in part, on minimum ratings from the rating agencies Standard & Poor's and A.M. Best.

The default risk from claims due from policy holders and insurance agents is accounted for in the form of general allowances for doubtful debt. Agents are also evaluated in terms of their credit worthiness. To manage potential delays or defaults on premium payments, in particular, the Company maintains very effective procedures for both direct and agent collections and for the reduction of outstanding receivables.

In the direct written insurance business outstanding receivables due from policy holders and insurance agents that were more than 90 days in arrears as of the balance sheet date totaled EUR 138.1 million. This represents 28.9 % of gross receivables. Adequate general and specific allowances for doubtful debt were recognized to cover the default risk vis-à-vis reinsurers. Over the past three years, HDI-Gerling Industrie Versicherung AG was required to write-off an average of 5.7% of receivables on reinsurance business as of the balance sheet date.

Investment risk

Investment risk encompasses primarily market risk, credit risk and liquidity risk.

Market risk arises from potential losses due to unfavorable changes in market prices and may be attributable to changes in interest rates, share prices and exchange rates. Credit risk involves losses resulting from the default of a debtor.

Liquidity risk involves the inability to meet payment obligations under insurance agreements, in particular, at any and all times.

The measurement, control and management of risks with respect to market price risk rely on stress tests, modified duration and convexity and on the asset-liability management model that has been implemented. The actual developments in the capital markets are then taken into account as part of the ongoing process.

Credit risk is managed by means of a system of ratings classes under the special investment guidelines. Credit risks related to mortgages and land charges as well as real properties are limited under the special investment guidelines. Liquidity and concentration risk is taken into account through adequate fungibility and diversification of investments.

Risk management objectives

The aim of risk management is to ensure that the investment objectives of security, returns and liquidity are taken into consideration at the same time. The intent is to consider the overall risk situation of the Company. This is characterized in particular, by: the underwriting obligations assumed, the existing structure of investments, own funds and other financial reserves of the Company.

The results of liquidity planning and controlling performed throughout the year are incorporated into the risk management and are taken into account in terms of the time horizon.

Management of the investment portfolio

The general parameters for the weighting, the quality and the returns on investments are defined giving due consideration to the overall risk position of the Company.

Investments are subject to detailed guidelines and adherence is continuously monitored, as is compliance with the statutory requirements such as the German Regulation on the Investment of Restricted Assets of Insurance Undertakings [Anlagenverordnung] and official circulars. These investment guidelines are designed to serve as framework for the investment strategy, taking into account

the operating insurance business and the time horizon, and as evidence vis-à-vis outside parties (German Federal Financial Supervisory Authority [BaFin], independent auditors, etc.). The monitoring of the ratios and limits specified in these guidelines is incumbent on Risk Controlling and on the Chief Financial Officer. All material changes to the investment guidelines including appendixes and/or investment policies must be approved by the full Executive Board of the Group and reported to the Supervisory Board.

Risk measurement and control

The risk associated with the bond portfolio is monitored by determining the interest rate risk on the basis of scenario analyses. Compliance with the limits established by the Chief Financial Officer with respect to the duration of the bond portfolio is also controlled. To monitor changes in the market values of interest-rate sensitive products, the convexity limits of bond products are further tracked on a daily basis. In connection with listed shares, Risk Controlling determines the risk associated with equity instruments on the basis of scenario analyses and stress tests, which are performed at least monthly in compliance with the supervisory regulations.

Scenarios for changes in the market value of securities

Portfolio changes based on market value in € million	
Portfolio	
Equities and other non-fixed interest securities	
Share prices - 20%	-45.7
Fixed-interest securities and other loans	
Rise in yield + 100 basis points	-157.6
Decline in yield - 100 basis points	156.8

In connection with the exchange rate risk, cover in matching currencies is monitored. In addition exposures are controlled with respect to the additional limits by currency set by the Chief Financial Officer.

The default risks to be monitored comprise counterparty and issuer risk. Counterparty and issuer risk is controlled on the basis of counterparty lists issued by the Chief Financial Officer as well as by monitoring the limits that are defined for each ratings class. Adherence to the issuer limits set by the Chief Financial Officer (group limits and/or Company limits) is monitored on an ongoing basis.

in € million; %		
Bearer bonds Rating AAA		
Rating AAA	765	68.6
Rating AA	202	18.1
Rating A	118	10.6
Rating BBB	31	2.7
Grand total	1,117	100.0
Registered bonds/ promissory notes		
Rating AAA	1,219	41.5
Rating AA	1,309	44.5
Rating A	335	11.4
Rating BBB	65	2.2
Rating < BBB	10	0.3
Grand total	2,938	100.0
Fixed income funds:		
Rating AAA	98	15.2
Rating AA	105	16.3
Rating A	255	39.6
Rating BBB	142	22.0
Rating < BBB	45	6.9
non rated	1	0.1
Grand total	645	100.0
Loans		
Rating BBB	21	100.0
Grand total	21	100.0
Grand total		
Rating AAA	2,083	44.1
Rating AA	1,616	34.2
Rating A	708	15.0
Rating BBB	258	5.5
Rating < BBB	55	1.2
non rated	1	0.0
Grand total	4,720	100.0

Key liquidity indicators are reviewed and reported quarterly to monitor liquidity risk. Compliance with the minimum and maximum limits set by the Chief Financial Officer is tested in connection with the liquidity reserve.

Any risk limit excesses are immediately reported to the Chief Financial Officer and to Portfolio Management.

Derivatives transactions

Derivatives transactions are entered into for the purpose of hedging market price or interest rate change risk relative to existing assets (hedging transactions) or in anticipation of the future purchase of securities (forward transactions) or in order to derive an additional return from existing securities (yield enhancement transactions). The use of derivative products is regulated by an internal guideline in order to ensure the most efficient and least risky possible use of forward purchases, derivative financial instruments and structured

products, and to comply with the BaFin requirements for the use of forward purchases, derivative financial instruments and structured products.

Investment guideline requirements and statutory requirements for derivatives and structured products are maintained in the limit system and continuously monitored. Derivatives positions and transactions are shown in detail in the reporting.

Operational risks

HDI-Gerling Industrie Versicherung AG considers functional and global risks as the main operational risks.

Risks arising in the areas of management, procurement, services and sales are monitored in the group of functional risks. Against the background of a business that grows ever more complex and in which customer orientation plays an important role, among other factors, HDI-Gerling Industrie Versicherung AG attaches a high priority to the qualitative aspects of human resources management as well as the continuing education and training programs for functional and management staff.

Failure of the EDP systems is a further potential risk. This risk is mitigated in particular by a back-up data center, that is operated by Talanx Serviceholding AG (formerly HDI-Gerling Sach Serviceholding AG) under a service agreement, as well as the creation of contingency plans. The risk of a potential failure to adapt products, services and distribution channels to technological innovation is contained primarily by pursuing technological progress and the analysis of diverse sales scenarios.

In the category of global risks, HDI-Gerling Industrie Versicherung AG is concerned with the risk of becoming dependent on the behavior of the competition – given the background of the intensely competitive insurance markets – for the cost calculations, pricing and structuring of its products. It counters this risk above all by establishing its own strategic position, by setting service standards and by individually calculating its bids.

Overview of the risk position

On balance, there are presently no known risks that could jeopardize the continued existence of HDI-Gerling Industrie Versicherung AG.

Forecast

Economic Climate

For 2011, we expect a continuation of the economic recovery, with developments still characterized by a high degree of heterogeneity. The strongest growth will be generated in the emerging markets which benefit from rising domestic consumption and comparatively low debt ratios. In contrast, many developed countries are hampered by high debt burdens. These structural imbalances will have a negative impact on the potential growth of the countries in question. This is especially true for the countries on the periphery of the Euro zone, where government austerity programs will slow down public and private consumption and thus growth.

However, given its export-driven growth model, Germany should benefit more strongly from the positive trends within the emerging markets and is expected to outperform the other euro zone countries over the course of the coming year. Similarly, we also predict a continued recovery as well as growth above the euro zone level for the US. Due to the high level of domestic consumption as a percentage of the gross domestic product, the performance of the American economy is greatly dependent on developments in the labor market. We expect the gradual easing to continue, though small setbacks must be expected.

In view of the moderate performance of the real economy, we do not expect the onset of accelerated price pressure during 2011. The reluctance to extend credit shows that infusions of money from the central banks is not finding its way into the real economy. Similarly, we do not anticipate significant change for 2011, which is likely to see only slightly rising inflation rates, without any real inflationary pressure. In contrast, some emerging markets are already experiencing noticeable price pressure, which will eventually also affect the developed countries in the form of imported inflation, albeit at a somewhat slower pace. The appetite for commodities in emerging countries is undiminished and could, to a certain extent, find its way into the consumer baskets of the developed world via rising energy prices in 2011.

In light of the overall moderately positive economic development, 2011 may also give central banks little reason to put a sudden end to their highly expansive monetary policy.

Capital markets

Fixed income

In 2011, central banks will be highly cautious in terms of their expansive monetary policy and may react very quickly with regard to the reduction of excess liquidity, if necessary. However, neither the ECB nor the Fed looks set to hike interest rates at the short end of the curve for the time being. Inflation expectations within the euro zone remain moderate, but are subject to debate even within the ECB. Inflation risks for the US and the UK are estimated to be slightly higher.

The focus will remain on the countries on the Euro-zone periphery. These states have very high refinancing needs, so that news-driven volatility is expected to continue. The overall picture remains very uneven. Given the high refinancing requirements within the banking sector, banks are likely to resort to the issuance of covered bonds. The stricter capital requirements under Basel 3 will also keep banks occupied.

The search for yield combined with the expected high government bond issue volume will push the 10-year government bond yields upwards. Against this background, the yield curve is likely to steepen before possibly flattening out again over the course of the year, given the prospect of key interest rate increases.

Aside from short-term volatility we expect a continuing stable trend for the corporate bond markets.

Equities

Supported by the continuation of the economic recovery, we trust that the equity markets will also generate positive yields during 2011. Fundamental valuations are below long-term averages and make equities still look cheap. Dividend yields are also quite high and will therefore support equity performance. What's more, the uninterrupted corporate profit trend is also encouraging. In our opinion, the M&A cycle has only just begun and will have a positive impact on 2011, as businesses have enough cash and are able to refinance themselves at favorable terms within the current low-interest environment. The continued supply of high liquidity by the central banks indicates higher inflows into the equity markets. Particularly those companies who have a high exposure to growth regions will likely perform well during 2011. On the other hand, analysts' profit expectations for 2011 are already highly optimistic and above pre-crisis levels, thereby entailing increased potential for disappointment.

Property and casualty and insurance

The insurance industry has largely dealt very well with the financial and economic crisis, thus confirming its basic soundness.

The business performance of the property and casualty insurance segments, like in recent years, was predominantly characterized by continuing intense price competition against a backdrop of high market penetration, and by conspicuously cyclical business trends.

Due to the improved financial position of private households and the economic recovery in industry, trade and the service sector, the casualty and accident insurance segment expects 1% premium growth in 2011. Demand on the corporate customer side proved to be very robust even through the financial crisis. But conversely, premiums are also not expected to climb in response to a more positive economic climate. Even if the market remains predominantly soft in many insurance lines, no insurance line forecasts further premium reductions. Motor vehicle insurance is again looking for 0.5% premium growth in 2011 as the market remains heterogeneous.

HDI-Gerling Industrie Versicherung AG

HDI-Gerling Industrie Versicherung AG is among the market leaders in industrial insurance in Germany and throughout Europe. Rising premium income and the growth of its foreign business are reinforcing its strong position as an international competitor.

The Company has expanded its global network in successive stages in response to the needs of its customers. HDI-Gerling Industrie Versicherung AG is able to place industrial insurance policies with primary insurance providers in the Talanx Group in 28 countries and with network partners more than 130 countries. In the 2011 financial year, plans provide for the further expansion of the industrial insurance business in Europe as well as in Latin America, (South) East Asia and the Arabian Peninsula. The establishment of a branch in Canada is also planned for 2011.

As a result of the economic recovery in the domestic markets as well as in exports that began in 2010, the Company expects premiums to grow especially in the case of revenue-based policies. The expected premium volume of EUR 2.6 billion expected for 2011 is thus slightly higher than the total as of 31 December 2010. Given that bids are sharply contested in terms of prices and conditions, the industrial insurance market is expected to remain harshly competitive. This means that there is very limited room for premium adjustments on existing policies. Claims expenses are further expected to rise as economic activities accelerates in many areas.

While reinforcing existing strength in direct sales on the basis of close customer contacts and technical and personal competencies, work continues on the ongoing improvement of internal procedures, systems and processes.

Even based on its conservative assumptions about expected returns on investments, the Company expects to match the satisfactory results from investments for 2010 again in 2011.

Events after the balance sheet date

HDI-Gerling Industrie Versicherungs AG is taking over the Netherlands property insurance company Nassau Verzekering Maatschappij N. V. with economic effect retroactive to 30 September 2010. The agreement was signed on 19 January 2011. Subject to approval by the responsible supervisory authorities, the closing will occur in the second quarter of 2011. Nassau Verzekering Maatschappij N. V. has its head office in Rotterdam. The company is an established niche insurer, which has focused on specialized segments such as professional liability, D&O insurance and crisis management services. Its customers are small and mid-sized companies. It had approximately 160 employees in 2010, and generated a volume of EUR 106 million in premiums.

In the wake of the natural disasters in Japan (an earthquake measuring 9 points on the Richter scale followed by a tsunami hitting large sections of Japan's north-east coast) an impact on HDI-Gerling Industrie Versicherung AG cannot be ruled out from either the direct written business or the business accepted for reinsurance, but cannot be more precisely quantified at the present time. But given the volume of business in Japan, it is believed that this will be manageable.

There were no other significant events after the balance sheet date.

Scope of business operations

The Company operates its business through the following branch offices:

National:

Berlin, Dortmund, Düsseldorf, Essen, Hamburg, Hannover, Leipzig, Mainz, Munich, Nuremberg, Stuttgart.

International:

Athens, Hong Kong, London, Milan, Oslo, Paris, Sydney, Tokyo, Zurich

Casualty insurance

Aviation casualty insurance,
Clinical trials insurance,
Individual comprehensive casualty insurance,
Individual partial casualty insurance,
Group casualty insurance,
Motor vehicle casualty insurance,
Medical insurance in connection with foreign travel insurance;
Other casualty insurance

Liability insurance

Occupational and industrial injury liability insurance
Water pollution liability insurance,
Business and property damage liability insurance
Property damage liability insurance
Directors and Officers (individual),
Fire liability insurance,
Aviation liability insurance,
Environmental liability insurance,
Space flight liability insurance,
Pharmaceutical, radiation and nuclear facility liability insurance,
Sports liability insurance,
Other general liability coverage

Motor vehicle liability insurance

Other motor vehicle insurance

Comprehensive motor vehicle insurance
Partial motor vehicle insurance

Legal protection insurance

Fire and property insurance

Industrial fire insurance,
Agricultural fire insurance,
Fire business interruption insurance,
Other fire insurance
Machinery insurance,
Electronics insurance,
Installation insurance,
Construction services insurance,
Existing buildings' insurance,
TV - business interruption insurance
Other technical insurance coverage,
Extended coverage (EC) insurance,
EC - business interruption insurance,
Burglary and theft insurance,
Tap water insurance,
Glass insurance,
Storm insurance,
Umbrella insurance,
Other property loss insurance (motor vehicles),
Other property loss insurance (transport),
Motor vehicles warranty insurance

Transport and aviation insurance

Comprehensive aircraft insurance,
Comprehensive aviation war risk insurance;
Comprehensive spaceflight insurance,
Merchandise insurance,
Comprehensive maritime insurance/ ocean-going travel,
Traffic liability insurance,
Comprehensive maritime insurance/ river travel,
Terrorism risk – transport,
Goods in transport insurance,
Valuables insurance,
Comprehensive insurance,
Other transport insurance,
Other aviation and spaceflight insurance

Credit and collateral insurance

Collateral insurance,
Export credit insurance

Other insurance

Machinery warranty insurance,
Other property loss insurance
(Motor vehicles warranty insurance),
Other property damage insurance (aviation),
Other property damage insurance (transport),
Other property damage insurance (ransom payments),

Other property loss insurance
(Remediation consultation insurance),
Other business interruption insurance,
Other miscellaneous insurance,
Other property loss insurance (exhibitions, hunting and
sporting weapons, motor vehicle luggage, musical instruments,
cameras,
reefer cargo, nuclear facilities, automated devices),
Other business interruption insurance
(Film production insurance, operations shut-down),
Other financial losses (loss of license, loss of rent)
Other miscellaneous insurance (tank and barrel leakage)
Loss of reputation (computer misuse),
Burglary, theft and robbery insurance,
Tap water insurance,
Glass insurance,
Storm insurance,
Umbrella insurance,
Other casualty insurance

All risk insurance

All risk property insurance,
All risk business interruption insurance,
Multi line insurance,
Multi peril insurance

**HDI-Gerling Industrie Versicherung AG also provides
reinsurance in the following insurance categories:**

Casualty insurance,
Liability insurance,
Motor vehicle insurance,
Aviation insurance,
Legal protection insurance,
Industrial fire insurance (including terrorism risk, TV),
Fire business interruption insurance,
Credit insurance,
Other miscellaneous insurance,
Loss of reputation insurance
Technical insurance

In addition, HDI-Gerling Industrie Versicherung AG also covers
liability risks in relation to nuclear installations, pharmaceuticals
and terrorism risks as part of the business accepted for reinsurance.

Balance sheet as at 31 December 2010

Assets	31.12.2010	31.12.2010	31.12.2010	1.1.2010*	31.12.2009
in € 000					
A. Intangible fixed assets			3,440	3,289	3,289
B. Investments					
I. Land, land rights and buildings, including buildings on third-party land		59,582		65,162	65,162
II. Investments in affiliated companies and other equity investments		583,345		480,884	480,884
III. Other investments		5,233,770		5,207,767	5,142,367
IV. Deposits retained on business accepted for reinsurance		107,502		92,408	92,408
			5,984,199	5,846,221	5,780,821
C. Receivables					
I. Receivables arising from direct written insurance business, due from:					
1. Policy holders		254,502		330,868	329,108
2. Intermediaries		216,514		77,819	77,717
			471,016	408,687	406,825
II. Receivables on reinsurance business of which due to affiliated companies: € 199,514 thousand (prior year: € 158,826 thousand)					
		601,127		472,148	472,148
III. Other receivables - of which due to affiliated companies: € 147,950 thousand (prior year: € 243,628 thousand)					
		298,056		356,308	356,150
			1,370,199	1,237,143	1,235,123
D. Other assets					
I. Property, plant and equipment and inventories		7,515		7,653	7,653
II. Current account balances with financial institutions, checks and cash		135,860		125,852	125,852
III. Other receivables and other assets		102		1,022	1,022
			143,477	134,527	134,527
E. Deferred and accrued items					
I. Deferred and accrued interest and rents		87,022		85,065	85,044
II. Other prepaid expenses		1,570		1,690	1,658
			88,592	86,755	86,702
F. Excess of plan assets over post-employment benefit liability			1,081	–	–
Total assets			7,590,988	7,307,935	7,240,462

* Balance carried forward including the acquisition of the industrial legal protection business unit implemented retroactive to January 1, 2010

Equity and liabilities	31.12.2010	31.12.2010	31.12.2010	1.1.2010	31.12.2009
in € 000					
A. Equity					
I. Subscribed capital		125,000		125,000	125,000
II. Capital reserves		281,536		162,493	162,493
			406,536	287,493	287,493
B. Subordinated liabilities					
			250,000	250,000	250,000
C. Underwriting provisions					
I. Unearned premium reserve					
1. Gross amount	518,145			496,274	494,582
2. less: share for business ceded for reinsurance	161,546			169,041	169,041
			356,599	327,233	325,541
II. Provision for outstanding claims					
1. Gross amount	7,666,054			7,469,409	7,394,114
2. less: share for business ceded for reinsurance	3,670,223			3,569,597	3,559,310
			3,995,831	3,899,812	3,834,804
III. Provision for profit-related and non-profit related premium refunds					
1. Gross amount	11,700			11,126	11,122
2. less: share for business ceded for reinsurance	–			15	15
			11,700	11,111	11,107
IV. Equalization reserve and similar provisions					
		684,675		645,471	645,394
V. Other underwriting provisions					
1. Gross amount	29,682			41,463	41,365
2. less: share for business ceded for reinsurance	-126,727			-96,148	-96,148
			156,409	137,611	137,513
			5,205,214	5,021,238	4,954,359
D. Other provisions					
I. Provisions for pensions and similar liabilities		299,589		305,173	305,172
II. Provisions for taxes		65,179		96,597	96,597
III. Other provisions		84,278		132,083	132,052
			449,046	533,853	533,821
E. Deposits retained on reinsurance ceded					
			32,115	13,479	13,479
F. Other liabilities					
I. Liabilities from direct written insurance business due to:					
1. Policy holders	78,963			99,158	98,845
2. Intermediaries	122,741			84,065	83,816
			201,704	183,223	182,661
II. Payables on reinsurance business of which due to affiliated companies:					
		663,777		582,112	582,112
III. Liabilities to banks					
		–		0	0
IV. Other liabilities:					
- of which taxes: € 28,737 thousand (prior year: € 26,353 EUR thousand)		382,354		436,190	436,190
- of which social security: € 2,188 thousand (prior year: € 4,060 thousand)					
- of which due to affiliated companies: € 240,437 thousand (prior year: € 317,602 thousand)					
			1,247,835	1,201,525	1,200,963
G. Deferred and accrued items					
			242	347	347
Total equity and liabilities			7,590,988	7,307,935	7,240,462

* Balance carried forward including the acquisition of the industrial legal protection business unit implemented retroactive to January 1, 2010

The annuity provision recognized on the balance sheet as of the close of the 2010 financial year under Equity and Liabilities C.II. is equal to € 19,145,530. This is to confirm that the annuity provision recognized on the balance sheet under Item C.II. was calculated in compliance with § 341f and § 341g (HGB).

Income statement for the 2010 financial year

I. Underwriting income and expenses	2010	2010	2010	2009
in € 000				
1. Earned premiums for own account				
a) Gross premiums written	2,529,877			2,523,548
b) Premiums ceded to reinsurance	1,338,225			1,385,876
		1,191,652		1,137,672
c) Change to the gross unearned premium reserve	1,263			-14,159
d) Adjustment of reinsurers' share in unearned gross premiums	15,759			-46,762
		-14,496		32,603
			1,177,156	1,170,275
2. Underwriting interest income for own account			447	146
3. Other underwriting income for own account			4,800	690
4. Claims expenses incurred for own account				
a) Claims paid				
aa) Gross amount	1,775,657			1,740,165
bb) Reinsurers' share	859,672			1,035,991
		915,985		704,174
b) Change to provisions for outstanding claims				
aa) Gross amount	-133,284			-133,335
bb) Reinsurers' share	-101,895			-359,659
		-31,389		226,324
			884,596	930,498
5. Change to other net underwriting provisions			16,687	52,886
6. Expenses for profit-related and non-profit related premium refunds for own account			1,933	3,954
7. Underwriting expenses for own account				
a) Gross underwriting expenses		487,484		505,389
b) less: commissions and profit shares received for business ceded to reinsurance		206,109		238,957
			281,375	266,432
8. Other underwriting expenses for own account			4,381	2,393
9. Subtotal			-6,569	-85,052
10. Changes to equalization reserve and similar provisions			-39,203	4,565
11. Underwriting results for own account			-45,772	-80,487

II. Non-underwriting income and expenses	2010	2010	2010	2009
in € 000				
1. Investment income				
a) Income from equity investments	19,459			2,653
- of which due to affiliated companies: € 19,261 thousand (prior year: € 2,261 thousand)				
b) Income from other capital investments				
- of which due to affiliated companies: € 16,445 thousand (prior year: € 17,150 thousand)				
ba) Income from land, land rights and buildings, including buildings on third-party land	12,018			10,700
bb) Income from other investment	245,004			233,087
c) Income from reversals of write-downs	5,545			12,676
d) Gains on disposal of investments	11,453			40,951
e) Income from profits received under profit pooling, profit or loss transfer, or partial profit transfer agreements	5,231			4,362
		298,710		304,429
2. Investment-related expenses				
a) Investment management expenses, interest expenses and other expenses related to capital investments	66,052			54,179
b) Write-downs of investments	17,371			5,362
c) Losses on disposal of investments	8,635			9,624
		92,058		69,165
		206,652		235,264
3. Underwriting interest income		460		-493
			206,192	234,771
4. Other income		558,944		239,523
5. Other expenses		559,536		207,934
			-592	31,589
6. Net profit/loss from ordinary activities			159,828	185,873
7. Extraordinary income		59		2,661
8. Extraordinary expenses		16,868		18,526
9. Net profit/loss from extraordinary items			-16,809	-15,865
10. Taxes on income		-6,469		15,323
11. Other taxes		18,675		803
			12,206	16,126
12. Profit transferred on the basis of profit pooling, profit and loss transfer, or partial profit transfer agreements		130,813		153,882
			-130,813	-153,882
13. Net profit/loss for the year			0	0

Notes

General information

The changes in German accounting regulations under the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz; BilMoG) are applied for the first time in these annual financial statements. In accordance with the option in Article 67 (8) sentence 2 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch; EGHGB), prior-year figures were not restated.

Assets

Intangible fixed assets

Intangible assets are recognized at cost less depreciation/ amortization applied in accordance with their customary useful lives.

Land, land rights and buildings, including buildings on third-party land

Land and buildings were recognized at the cost of acquisition and / or construction. Depreciation is applied using their customary useful lives.

To determine the fair value of our real properties, we have mainly applied the gross rental value method in accordance with the regulations concerning the principles governing the assessment of the fair market values of properties (Valuation Ordinance – Wertermittlungsverordnung; WertV) and the supplementary 1976/1996 Valuation Guidelines. This approach determined the discounted present value of the cash flows from rents, etc. that may be generated by the property. In addition to the gross rental value method, alternative methods are used for non-rental properties, in particular, that rely on various factors such as location, fittings and fixtures, the degree to which a building has been modernized as well as prices obtained from the sale of comparable properties in close to the same period. These are considered “generally accepted methods” within the meaning of § 55 of the Regulation on Insurance Accounting (Verordnung über die Rechnungslegung von Versicherungsunternehmen; RechVersV). In accordance with § 55 (3) RechVersV, current fair market values are determined no later than every five years. These amounts are reviewed annually and adjusted when and if required.

Shares in affiliated companies and equity investments

Shares in affiliated companies and equity investments are recognized at cost less write-downs (if any) to their fair value in accordance with § 341b (1) sentence 2 HGB in conjunction with § 253 (2) HGB (modified lower of cost or market principle).

The market value of the shares in affiliated companies and equity investments has been determined in accordance with § 56 subsection 2 RechVersV. Investees with operating business units were valued at their going concern value. As a general rule, non-operating investees were recognized at their carrying amount. Net asset values were determined and recognized for entities whose principal assets are composed of real estate. For companies in the start-up phase, the carrying amount was deemed to represent their fair value. For entities acquired close to the balance sheet date the carrying amount was also deemed to represent their fair value, provided there were no indications of any impairment. If the determination of the fair value indicates an impairment that is expected to be permanent, a write-down is applied.

Amounts lent to affiliated companies were recognized at cost and/or the notional loan amount in the case of amounts provided as loans and at cost for all other forms of lending, less any write-downs to their fair value as of the balance sheet date, if applicable.

Other investments

Shares, investments shares and other non-fixed interest securities as well as bearer bonds and other fixed interest securities were recognized at the lower of cost or market. Securities designated for use in continuing operations were recognized in accordance with the modified lower of cost or market principle. The permanent nature of the applicable write-down was assessed on a case-by-case basis.

The fair value of our other investments was generally determined on the basis of their open market value (§ 56 RechVersV). For exchange-traded investments, this means on the basis of the price quoted on the exchange on the balance sheet date or by the methods described in greater detail below:

A discounted dividend method based on profit projections from independent analysts is used to determine the fair value of shares and share-based funds.

Bonds and bond funds are valued on the basis of a nominal value approach that relies on the nominal value of the bonds expected at their final maturity, provided that no adjustment must be applied due to credit concerns. For mixed funds, the individual components are valued as appropriate in accordance with either method.

Receivables from mortgages, land charges and annuity land charges were recognized at their nominal value less amortization.

Registered bonds, promissory note receivables and loans are accounted for at their nominal value less amortization in accordance with § 341c HGB. Registered zero coupon bonds were recognized at cost plus pro-rata accrued interest. Hidden encumbrances are exclusively related to interest rates and thus temporary in nature.

All other loans were stated at their nominal value.

Damnum or disagio discounts on mortgages, registered bonds, promissory note receivables and loans as well as other forms of lending are amortized as deferred income over the life of the asset; premiums are amortized over the relevant period as prepaid expenses.

Deposits with banks and deposits retained were recognized at their nominal amounts.

Receivables

Receivables from direct written insurance business were recognized at their notional amounts. General allowances for doubtful debt were recognized in the reporting period in line with the aging structure of the receivables. Under this process, all receivables outstanding for more than three years were written off in full.

Reinsurance receivables and other receivables are recognized on the balance sheet at their nominal amounts. The general default risk was accounted for by recognizing an appropriate allowance for impairment losses.

Since the cost accounts were closed for new postings before the balance sheet date, entries for costs incurred after the last posting date for accruals were recorded as other receivables. This accrued item is offset by estimated costs for the period between the closing of the cost accounts and the balance sheet date, which are reported under other provisions.

The corporate tax credit was calculated in accordance with the Act on Fiscal Measures Accompanying the Introduction of the European Corporation and the Amendments of Other Tax Regulations (Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften; SEStRG) using a notional interest rate of 2.46%.

Other assets

Tangible fixed assets and inventories are recognized at cost. Operating and office equipment was recognized at cost and is depreciated over the customary useful life. The depreciation was applied according to the straight-line method; the periods of useful life range from 3 to 20 years. Low-value assets of up to EUR 150 are immediately deductible as operating expenses.

Low-value assets of up to EUR 410 are fully depreciated/ amortized in the year in which they are acquired. In previous years (2008 and 2009) low-value assets with acquisition and/or production costs of more than EUR 150 and up to EUR 1,000 were recognized in a collective account that is being depreciated over five years. Some inventory items are carried at a fixed value.

Current balances with financial institutions, checks and cash have been recognized at their notional amount.

Equity and liabilities

Subordinated liabilities

The subordinated liability was recognized at its nominal amount.

Approximation and simplification methods

In order to be able to complete the financial statements by the deadline date, the last posting date for underwriting data was advanced by one month. The following approximation methods were used for the appropriate presentation of the reporting period.

When calculating the gross underwriting numbers for the direct written business, cash and non-cash changes were estimated for the month of December. The estimates of cash items (claims payments) were handled via settlement accounts provided specifically for this purpose. A history from previous financial statements was used as the basis for the calculation of the estimated amounts. These figures were tested for plausibility from a technical perspective. In a further step, the posted estimates were compared with the actual figures and adjusted in accordance with an aggregate posting algorithm if excess amounts or shortfalls exceeded a pre-determined materiality threshold.

The affected balance sheet items are:

The unearned premium reserve: changes in the servicing of premiums (which included new business, policy changes and terminations between the closing date for the accounting entries and the balance sheet date) were estimated for the last month. The gross premiums written were prospectively posted as debits for the correct period. For the foreign operating locations, total premiums were estimated for the last month. The effects on premium-driven secondary line items (unearned premiums, commissions, fire protection tax) were calculated and recorded. Provisions for outstanding claims were influenced by the estimates for claims payments and non-cash changes.

The calculation of the contractual shares in gross amounts due to the reinsurers (this relates to all relevant underwriting line items) relied on the following approach: the shares due to the reinsurers from active and passive reinsurance were derived from proportionate reinsurance coverage using factors that were based on the gross reinsurance ratio for the preceding quarter and in reliance on the gross numbers, including the estimates made for the month of December, and tested for plausibility. To the extent that adjustments are made to the gross unearned premium reserve and the provision for outstanding claims as a result of the estimate-to-actuals comparison described above, the shares of the reinsurers are taken into account in such adjustments via the aggregate posting algorithm. The shares for reinsurance attributable to non-proportional coverage include estimates for the last quarter. Material events that occurred in the period between the estimate and the preparation of the financial statements are accounted for by individual postings. For individual sub-portfolios in the process of being settled, the reinsurance shares were recorded with a shift in timing of one month and/or one quarter. The volume from the third quarter that was recognized with a shift in timing by one quarter was equal to EUR 636,081 thousand.

The methods used were subject to strict technical controls; in aggregate, they do not have a material effect on the net assets, financial position and results of operations of the Company.

Underwriting provisions

The underwriting provisions were calculated as follows, using the methods and approaches described above:

For both the direct written business and the business accepted for reinsurance – provided no information in this respect was provided by the ceding companies – unearned premiums were determined according to the 1/360 method or for the exact number of days (pro rata temporis) in compliance with the regulations of the supervisory authority and the circular from the German Federal Minister of Finance dated 30 April 1974. The shares ceded for reinsurance are accrued in accordance with the contractual agreements.

For the direct written insurance business, the provision for outstanding claims was determined separately for each individual claim.

In the co-insurance business, the information provided by the lead insurers was adopted. If the information from the lead insurers was not available as of the balance sheet date, the reserves were estimated for each business relationship on the basis of past experience.

In motor vehicle liability, motor vehicle comprehensive and motor vehicle partial own damage insurance, the group-valuation option was used for unsettled minor claims.

A provision for losses incurred but not reported was calculated on the basis of empirical data for losses unknown as of the balance sheet date. If current information was available in individual instances, the relevant appropriate amounts were recognized as provisions on a case-by-case basis.

The annuity provision calculated in accordance with § 65 VAG (Versicherungsaufsichtsgesetz; German Insurance Supervisory Act) and the provision for anticipated claims settlement expenses were recognized in addition. The provision for claims adjustment expenses was calculated in compliance with the Decree of the German Federal Minister of Finance dated 2 February 1973.

The annuity provision included in the provision for outstanding claims was calculated in accordance with § 341f HGB using the prospective method on the basis of individual contracts in combination with a flat-rate surcharge for the longevity risk and taking future costs into account.

Receivables from recoveries, salvages and loss sharing agreements for settled claims have been taken into account as deductions to the net loss reserve.

A provision for premium refunds was recognized in accordance with contractual terms and conditions.

The equalization reserve was calculated in compliance with the regulations according to § 29 RechVersV and the Appendix to § 29 RechVersV as well as the Regulations on Reporting for Insurance Undertakings (Versicherungsberichterstattungsverordnung; BerVersV). The other underwriting provisions were determined as follows:

The provision for premium lapse risks, which is included in other underwriting provisions, was calculated as follows: annual premiums were multiplied by the average ratio of premiums to the provision for premium lapse risks for the last three years in order to arrive at the provision for premium lapse risks for the reporting period.

The provision for obligations arising from membership in the Verkehrsofopferhilfe e.V. association was recognized according to the notice from the association.

The provision for repayment amounts on suspended motor vehicle insurance policies was determined on a contract-by-contract basis. The provision for the insurance for nuclear facilities and terrorism risk was calculated in accordance with § 30 (2) and (2a) RechVersV. The provision for major risks relating to pharmaceutical risk was determined in accordance with § 30 (1) RechVersV.

In the case of the insurance business accepted for reinsurance, the provisions ceded by the lead underwriters were generally recognized as liabilities, except and unless better information was directly available to the Company. To the extent that the amounts ceded were not yet available at the time that the financial statements were prepared, the reserve for losses was estimated using the amounts ceded last year. The resulting effects on the net assets, financial position and results of operation of the Company were immaterial.

Other provisions

Pursuant to § 253 (1) HGB, the provision for pensions was recognized at its settlement amount determined in accordance with the principles of commercial prudence. This measurement required estimates for salary and pension trends as well as probable turnover rates.

The provisions for pensions for employer-funded commitments and for employee-funded commitments not contingent on securities were calculated in accordance with the entry age normal method. The calculations were based on the actuarial decrement tables for active employees and retirees. This was based on the actuarial charts 2005G of Dr. Klaus Heubeck. The total amount was discounted to the balance sheet date assuming a remaining term of 15 years. The applicable interest rate for the calculation was determined and published by the German Bundesbank in accordance with the Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung; RückAbzinsVO).

For employee funded commitments contingent on securities, the settlement amount is equal to the fair value of the plan assets.

The calculation of the provisions for partial requirement included all employees of the Company who have already taken advantage of partial retirement and/or who are expected to take advantage of the partial retirement regulations (eligible candidates). The calculations are based on the actuarial charts 2005 G of Dr. Klaus Heubeck. In accordance with § 246 (2) sentence 2 HGB amounts thus calculated were offset against all assets intended for the settlement of this obligation and protected against attachment by all creditors. The net amount is the amount recognized on the balance sheet.

Provisions for anniversary bonuses were recognized depending on tenure with the Company and existing eligibility requirements, taking the increase in eligibility into account. The option to maintain the provision in accordance with Article 67 (1) sentence 1 EGHGB was exercised.

The provisions for taxes and other provisions take all recognizable risks and contingent liabilities into account.

Deposits retained

Deposits retained on direct written insurance were recognized as a liability at the settlement amount.

Other liabilities

Payables on reinsurance business as well as payables on direct written business were recognized at their settlement amounts.

Other liabilities are recognized at their settlement amounts.

Currency translations

If there are items denominated in foreign currency, they are converted as of the balance sheet date at the closing rate for balance sheet items and at the average rate for items in the income statement. The conversion rate for items in inventory is the average rate, or the respective month-end closing rate for monthly measurements.

The translation rate for the monthly measurement of income statement line items is the respective final rate on the last day of the preceding month. These positions are translated using a rolling method. The addition of the translated individual items effectively results in a translation at average rates.

Thus the currency translation is not based on cumulative data as of the closing date but represents a composite of the respective individual exchange rate translations for each month.

Income statement

The income statement items were calculated in accordance with the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

Assets

Changes to assets A., B.I. through B.III for the 2010 financial year

Assets in € 000	Balance sheet amount previous year	Balance sheet amount 1/1/2010**	Adjustment BilMoG***	Balance sheet amount 1/1/2010
A. Intangible fixed assets				
1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	3,289	3,289	–	3,289
B. I. Land, land rights and buildings, including buildings on third-party land	65,162	65,162	–	65,162
B. II. Investments in affiliated companies and other equity investments				
1. Shares in affiliated companies	169,696	169,696	–	169,696
2. Loans to affiliated companies	303,175	303,175	–	303,175
3. Equity investments	8,013	8,013	–	8,013
4. Total B. II.	480,884	480,884	–	480,884
B. III. Other investments*				
1. Shares, investment shares and other non-fixed interest securities	887,995	887,995	-5,448	882,547
2. Bearer bonds and other fixed-interest securities	849,630	854,030	–	854,030
3. Mortgages, land charges and annuity land charges	5,306	5,306	–	5,306
4. Other loans				
a) registered bonds	1,414,976	1,455,977	–	1,455,977
b) promissory notes and loans	1,449,050	1,469,050	–	1,469,050
c) other miscellaneous loans	21,000	21,000	–	21,000
5. Deposits with financial institutions	510,441	510,441	–	510,441
6. Other investments	3,969	3,969	–	3,969
7. Total B. III.	5,142,367	5,207,768	-5,448	5,202,320
Grand total	5,691,702	5,757,103	-5,448	5,751,655

* Write-downs in the amount of € 43 thousand were applied to assets recognized as fixed assets

Additional write-downs in the amount of € 925 thousand were not recognized; the associated carrying amounts were equal to € 122,344 thousand

The write-downs that were not recognized were largely related to zero-coupon bonds. These hidden encumbrances are related to interest rates and thus not permanent in nature.

**Balance carried forward including the acquisition of the industrial legal protection insurance business unit implemented retroactive to 1 January 2010

*** Funds serving as security for partial retirement obligations

Additions	Disposals	Reversals of write-ups	Exchange rate fluctuations	Amortization, depreciation and write-downs.	Balance sheet amount for the financial year	Fair values Investments
762	6	–	1	606	3,440	–
1	0	77	–	5,658	59,582	116,773
155,258	3,244	–	–	–	321,710	625,007
–	48,700	–	–	853	253,622	269,799
–	0	–	–	–	8,013	8,013
155,258	51,944	–	–	853	583,345	902,819
2,117,038	2,058,680	3,525	-1,286	3,988	939,156	952,510
849,396	661,666	1,380	80,120	6,830	1,116,430	1,148,317
–	1,370	–	–	–	3,936	4,306
416,940	302,699	–	7,087	–	1,577,305	1,616,723
260,000	375,000	–	6,576	–	1,360,626	1,387,575
–	–	–	–	–	21,000	19,957
30,975,183	31,279,369	–	4,772	–	211,027	211,027
109	321	563	14	43	4,291	4,406
34,618,666	34,679,105	5,468	97,283	10,861	5,233,771	5,344,821
34,774,687	34,731,055	5,545	97,284	17,978	5,880,138	6,364,413

B. II. Investments in affiliated companies and other equity investments

Name, registered office	Share in %	Currency	Equity	Result
Gerling Norge A/S, Oslo*	100.00	NOK	228	21
Gerling-Gruppe Versicherungs-Service AG, Zurich*	100.00	CHF	1,346	-61
Gerling-Konzern Panamericana Ltda., Sao Paulo*	100.00	BRL	629	-67
HDI Versicherung AG, Vienna*	100.00	EUR	41,930	7,512
HDI-Gerling Verzekeringen N. V., Rotterdam*	100.00	EUR	70,885	15,932
HDI Hannover International Espana Cia. de Seguros y Reaseguros. S.A., Madrid*	100.00	EUR	44,898	4,911
HEPEP III GmbH & Co. KG, Cologne**	8.20	EUR	11,925	56
HEPEP IV KG, Cologne*	7.35	EUR	22	-1
Institutional Venture and Equity Capital AG, Cologne	23.80	EUR	178,003	21,171
HDI-Gerling Sicherheitstechnik GmbH, Hannover	100.00	EUR	1,875	1,233
HDI-Gerling Welt Service AG, Hannover	100.00	EUR	90,986	5,231
HG Sach Altinvest GmbH & Co. KG, Cologne**	50.00	EUR	37,699	1,123
Riethorst Grundstücksgesellschaft mbH, Hannover*	50.00	EUR	43,246	-137

* Information as at the end of the 2009 financial year

** Information as at 30 September 2010

C. III. Other receivables

	31.12.2010	31.12.2009
in € 000		
Receivables from affiliated companies*	147,950	243,628
Claims payments / Co-insurance	31,613	37,473
Receivables not yet attributed (foreign branches)	43,505	22,680
Receivables due to timing differences in accounting entries	34,044	11,727
Receivables from tax authorities	17,942	19,236
Interest and rents receivable	4,781	3,716
Miscellaneous**	18,221	17,690
Grand total	298,056	356,150

* The receivables are largely related to services rendered. The total further includes a receivable due from HDI-Gerling Welt Service AG in the amount of € 5,231 thousand for profit transfers.

** Costs posted after the closing of the cost accounts (8 December 2010) were recognized as other receivables.

In the following period, the accruals will be reversed through profit and loss. These were equal to € 2,994 thousand (prior year: € 1,593 thousand).

D. Other assets

D. Other assets I. Property, plant and equipment and inventories

	31.12.2010	31.12.2009
Balance as of the start of the financial year	7,653	6,893
Additions	4,631	2,301
Disposals	134	734
Amortization, depreciation and write-downs.	4,824	796
Exchange rate fluctuations	189	-11
Balance as of the end of the financial year	7,515	7,653

E. Prepaid expenses

I. Deferred rent and interest income

	31.12.2010	31.12.2009
in € 000		
Interest	87,022	85,044

II. Other prepaid expenses

	31.12.2010	31.12.2009
in € 000		
Administrative expenses	506	205
Premiums on		
registered bonds	264	381
promissory notes and loans	364	496
subordinated loan(s)	436	576
Grand total	1,570	1,658
Prepaid expenses - total	88,592	86,702

Equity and liabilities

A. Equity

	31.12.2010	31.12.2009
in € 000		
I. Subscribed capital*		
Balance as of the start of the financial year	125,000	125,000
Balance as of the start of the financial year	125,000	125,000
II. Capital reserves		
Balance as of the start of the financial year	162,493	162,493
Balance transferred from HDI-Gerling Verzekeringen N.V., Rotterdam	48,571	–
Balance transferred from HDI Versicherung AG, Vienna	35,912	–
Balance transferred from HDI Hannover International Espana Cia. de Seguros y Reaseguros.	34,560	–
Balance as of the end of the financial year	281,536	162,493

* The subscribed capital is fully paid in and is divided into 125,000 registered shares of € 1,000 each. Talanx AG is the sole shareholder.

The creation of a statutory reserve is not required since § 150 (2) of the German Stock Corporation Act (AktG) („statutory reserve fund“) has already been satisfied by the creation of a capital reserve in accordance with § 272 (2) no. 1 HGB.

B. Subordinated liabilities

The subordinated liabilities in the amount of EUR 250,000 thousand are fixed/variable interest-bearing subordinated bearer bonds issued by Gerling-Konzern Allgemeine Versicherungs-AG with a notional amount of EUR 1,000 each. Following a re-listing, the securities are traded on the Euro MTF market of the Luxembourg exchange. The interest rate is 7.00% p.a. until 11 August 2014; starting 12 August 2014, they accrue quarterly interest at a rate equal to 3-months Euribor plus a premium of 3.75%, subject to a waiver of early call by our Company. The bonds will be redeemed at their par value on 12 August 2024.

C. Total gross underwriting provisions

	31.12.2010	31.12.2009
in € 000		
Direct written insurance business		
Casualty insurance	135,393	122,174
Liability insurance	4,213,459	4,017,026
Motor vehicle liability insurance	617,473	625,531
Other motor vehicle insurance	52,884	49,530
Fire and property insurance	861,693	851,185
of which:		
a) Fire insurance	372,189	385,699
b) Technical insurance	398,939	394,795
c) Other property insurance	90,565	70,691
Transport and aviation insurance	510,936	523,739
All risk insurance	205,666	173,915
Other insurance	171,771	135,026
Grand total	6,769,275	6,498,126
Reinsurance business accepted	2,140,982	2,088,451
Total insurance business	8,910,257	8,586,577

Of which:

a) Gross loss and loss adjustment expense reserve € 7,666,054 thousand (€ 7,394,114 thousand).

b) Equalization reserve and similar provisions € 684,675 thousand (€ 645,394 thousand).

C. II. 1. Gross loss and loss adjustment expense reserve

	31.12.2010	31.12.2009
in € 000		
Direct written insurance business		
Casualty insurance	99,851	82,074
Liability insurance	3,994,503	3,796,530
Motor vehicle liability insurance	518,917	523,805
Other motor vehicle insurance	48,041	42,135
Fire and property insurance	636,917	590,941
of which:		
a) Fire insurance	258,360	247,530
b) Technical insurance	297,316	291,356
c) Other property insurance	81,241	52,055
Transport and aviation insurance	390,296	382,238
All risk insurance	181,536	148,172
Other insurance	162,334	131,531
Grand total	6,032,395	5,697,426
Reinsurance business accepted	1,633,659	1,696,688
Total insurance business	7,666,054	7,394,114

C. III. 1 Gross provisions for profit-related and non-profit related premium refunds

	As at 31.12.2009	Distribution	Reversal	Addition	Changes in exchange rates	As at 31.12.2010
in € 000						
Profit-related premium refunds						
Casualty insurance	2,833	556	1,334	862	325	2,130
Liability insurance	940	202	205	1,849	4	2,386
Motor vehicle liability insurance	2	–	–	–	–	2
Fire and property insurance	2,295	–	–	–	–	2,024
of which:						
a) Fire insurance	553	–	–	–	29	582
b) Technical insurance	1,742	2	398	92	8	1,442
Transport and aviation insurance	5,032	23	396	479	62	5,154
Other insurance	20	-4	20	–	–	4
Total provision (gross)	11,122	777	1,955	3,190	391	11,700

C. VI. Equalization reserve and similar provisions

	31.12.2010	31.12.2009
in € 000		
Direct written insurance business		
Casualty insurance	14,695	21,010
Liability insurance	95,059	85,454
Motor vehicle liability insurance	90,712	90,713
Other motor vehicle insurance	–	2,272
Fire and property insurance	63,472	73,389
of which:		
a) Fire insurance	63,472	73,389
Transport and aviation insurance	85,983	105,052
Other insurance	3,210	–
Grand total	353,131	377,890
Reinsurance business accepted	331,544	267,504
Total insurance business	684,675	645,394

D. I. Provision for pensions and similar liabilities

As required by the Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz; BilMoG), the provision for pensions as of 1 January 2010 was measured at the settlement amount, taking into account salary and pension trends as well as employee turnover rates, and discounted to the balance sheet date. The assumed rates of increase were 2.75% for salaries and 2.00 % for pensions. The assumed probable employee turnover rates are shown in the table below.

Probable staff turnover rates in %

Age	Men	Women
20	11.5	11.6
25	7.9	7.9
30	5.4	5.5
35	3.7	3.8
40	2.5	2.5
45	1.4	1.4
50	0.7	0.7
50 or older	0.0	0.0

The provision for pensions was discounted using an interest rate of 5.17% and assuming a remaining term of 15 years. The new calculation as of 1 January 2010 resulted in a difference amount which will be appropriated over 15 years (at a rate of 1/15th per year) for employer-funded commitments and in one lump sum to be recognized as an extraordinary expense during the current financial year for the employee-funded commitments:

Provision for pensions

in € 000	
Provision for pensions as at 31 December 2009	305,172
Top-up amount (BilMoG)	11,293
Offset	-12,618
Provision for pensions according to BilMoG as at 1 January 2010	303,847
Use	24,687
Reversal	596
Addition	32,999
Accrued interest/interest rate change	21,042
Offset (carried forward)	-33,016
Provision for pensions recognized as at 31 December 2010	299,589

The settlement amount for the employer-funded provision for pensions as at 31 December 2010 was € 332,588 thousand.

The fair value of the funds held as cover for this amount as at 31 December 2010 was € 33,802 thousand. The amortized cost was equal to € 28,411 thousand.

The settlement amount for the employee-funded provision for pensions as at 31 December 2010 was € 12,635 thousand. The nettable plan assets are reinsurance claims. The amortized cost determined according to the lower of cost or market principle and thus the fair value within the meaning of § 255 (4) sentence 3 HGB is equal to the so-called actuarial reserves of the insurance agreement plus excess. The income and expenses netted in the Income Statement and resulting from the offset of assets and liabilities were equal to € 2,418 thousand.

in € 000	
Provision for pensions as at 31 December 2009	305,172
Total BilMoG difference amount*	127,650
Provision for pensions according to BilMoG as at 1 January 2010	432,822

** As at 31 December 2010, the amount for the provision not yet recognized on the balance sheet in accordance with § 67 (2) EGHGB was equal to € 116,357 thousand*

D. III. Other provisions

	As at 31.12.2009	Additions Business unit	First-time BilMoG adoption	Offset	As at 1.1.2010
in € 000					
Impending losses from reinsurance receivables	34,570	–	–	–	34,570
Take-over of the London operating location	21,123	–	–	–	21,123
Cartel law infringement proceedings	20,000	–	–	–	20,000
Partial retirement*	17,058	–	1,617	-5,448	13,227
Foreign branches	9,785	–	–	–	9,785
Compensation payable	9,688	25	–	–	9,713
Provisions for restructuring	6,500	–	–	–	6,500
Outstanding building repairs	–	–	–	–	–
Anniversary bonuses**	4,858	–	–	–	4,858
Litigation expenses	–	–	–	–	–
Provisions for costs	–	–	–	–	–
Vacation claims and credit balances in flextime accounts	2,326	6	–	–	2,332
Relief fund	1,752	–	–	–	1,752
Cost of financial statements	1,238	–	–	–	1,238
Consulting costs	437	–	–	–	437
Contribution to employers' liability insurance association	319	–	–	–	319
Miscellaneous	2,398	–	–	–	2,398
Grand total	132,052	31	1,617	-5,448	128,252

* The settlement amount of the provision of partial requirement was equal to € 16,744 thousand. The fair value of the funds held as cover for this amount as of December 31, 2010 was € 5,568 thousand. The amortized cost was equal to € 6,071 thousand. The income and expenses netted in the Income Statement and resulting from the offset of assets and liabilities were equal to € 161 thousand.

**The excess cover in accordance with § 67 (1) EGHGB was equal to € 276 thousand.

***Interest rate: 4.22 % (11/2010)

F. IV. Other liabilities

	31.12.2010	31.12.2009
in € 000		
Liabilities to affiliated companies*	240,437	317,602
Liabilities not yet attributable	35,716	28,077
Liabilities due to tax authorities	28,737	26,353
Liabilities due to timing differences in accounting entries	24,486	15,896
Liabilities from non-group lead business	21,058	9,147
Liabilities from interest on hybrid capital	6,757	6,757
Liabilities from uncashed checks	4,625	5,304
Trade payables	3,828	3,743
Liabilities from salary deductions for social insurance yet to be remitted	2,188	4,060
Liabilities to employees	473	8,096
Payments received	–	1,716
Miscellaneous	14,049	9,439
Grand total	382,354	436,190

* This includes liabilities from profit transfers in the amount of € 130,813 thousand due to Talanx Service AG (formerly HDI-Gerling Sach Serviceholding AG).

Use	Reversal	Addition	Accrued interest/ interest rate change	Offset (carried forward)	Carrying amount as at 31.12.2010
6,499	21,214	–	–	–	6,857
–	21,123	–	–	–	0
–	–	5,900	–	–	25,900
2,548	41	–	658	-119	11,177
5,646	4,139	1,409	–	–	1,409
9,465	248	10,936	–	–	10,936
3,065	–	–	–	–	3,435
–	–	5,000	–	–	5,000
503	–	–	225	–	4,580
–	–	3,237	–	–	3,237
–	–	2,514	–	–	2,514
2,332	–	3,654	–	–	3,654
1,752	–	1,200	–	–	1,200
1,201	37	1,551	–	–	1,551
424	–	1,144	–	–	1,157
319	–	387	–	–	387
2,044	147	1,077	–	–	1,284
35,798	46,949	38,009	883	-119	84,278

G. Deferred income

	31.12.2010	31.12.2009
in € 000		
Discounts on registered bonds, promissory notes and loans	203	308
Rents and ancillary expenses	39	39
Grand total	242	347

Income statement

I. 1.a) Gross premiums written

Direct written insurance business

in € 000	2010	2009
Casualty insurance	72,050	70,109
Liability insurance	668,536	664,067
Motor vehicle liability insurance	174,240	168,392
Other motor vehicle insurance	97,839	92,222
Fire and property insurance	473,769	502,093
of which:		
a) Fire insurance	255,327	250,145
b) Technical insurance	165,694	181,425
c) Other property insurance	52,748	70,523
Transport and aviation insurance	203,406	233,600
All risk insurance	147,188	135,394
Other insurance	58,332	46,097
Grand total	1,895,360	1,911,974
Reinsurance business accepted	634,517	611,574
Total insurance business	2,529,877	2,523,548

Origin of gross premiums written for the direct written insurance business

in € 000	2010	2009
a) In Germany	1,403,083	1,451,549
b) Other member states of the European Community as well as other treaty states of the Agreement Creating the European Economic Area	310,493	285,940
c) Third countries	181,784	174,485
Grand total	1,895,360	1,911,974

I. 1. Gross premiums earned

Direct written insurance business

	2010	2009
in € 000		
Casualty insurance	74,504	74,612
Liability insurance	679,921	674,552
Motor vehicle liability insurance	176,591	169,071
Other motor vehicle insurance	98,002	92,095
Fire and property insurance	497,349	507,927
of which:		
a) Fire insurance	266,065	252,594
b) Technical insurance	169,708	184,041
c) Other property insurance	61,576	71,292
Transport and aviation insurance	205,894	233,785
All risk insurance	146,342	140,531
Other insurance	57,342	46,453
Grand total	1,935,945	1,939,026
Reinsurance business accepted	595,195	570,362
Total insurance business	2,531,140	2,509,388

I. 2. Net premiums earned

Direct written insurance business

	2010	2009
in € 000		
Casualty insurance	60,555	55,361
Liability insurance	252,398	268,197
Motor vehicle liability insurance	160,723	155,410
Other motor vehicle insurance	88,528	83,691
Fire and property insurance	184,626	165,494
of which:		
a) Fire insurance	75,477	53,464
b) Technical insurance	87,780	91,805
c) Other property insurance	21,369	20,225
Transport and aviation insurance	156,573	177,785
All risk insurance	37,556	22,457
Other insurance	45,005	38,164
Grand total	985,964	966,559
Reinsurance business accepted	191,192	203,716
Total insurance business	1,177,156	1,170,275

I. 2. Underwriting interest income

In the direct written gross insurance business, underwriting interest income was calculated on the annuity provision. The return of 2.25% was calculated using the arithmetic mean of the initial and ending balances of the provision.

I. 4. Gross claims and claims expenses

Direct written insurance business

	2010	2009
in € 000		
Casualty insurance	50,900	40,967
Liability insurance	485,252	483,544
Motor vehicle liability insurance	146,150	137,111
Other motor vehicle insurance	102,002	85,115
Fire and property insurance	279,410	208,614
of which:		
a) Fire insurance	121,279	67,444
b) Technical insurance	105,903	122,721
c) Other property insurance	52,228	18,449
Transport and aviation insurance	167,049	179,769
All risk insurance	132,065	106,249
Other insurance	14,369	21,571
Grand total	1,377,197	1,262,940
Reinsurance business accepted	265,176	343,890
Total insurance business	1,642,373	1,606,830

I. 7. a) Gross underwriting expenses

Direct written insurance business

	2010	2009
in € 000		
Casualty insurance	17,528	19,455
Liability insurance	104,164	116,236
Motor vehicle liability insurance	31,707	31,600
Other motor vehicle insurance	19,443	19,090
Fire and property insurance	99,231	116,623
of which:		
a) Fire insurance	46,906	49,406
b) Technical insurance	38,893	46,181
c) Other property insurance	13,432	21,036
Transport and aviation insurance	47,836	55,188
All risk insurance	29,667	24,852
Other insurance	16,443	11,398
Grand total	366,019	394,442
Reinsurance business accepted	121,465	110,947
Total insurance business	487,484	505,389

Of the gross underwriting expenses for the financial year € 69,205 thousand (prior year: € 83,012 thousand) are attributable to acquisition costs and € 418,279 thousand (prior year: € 311,430 thousand) are attributable to general and administrative expenses.

Reinsurance balance

Direct written insurance business

	2010	2009
in € 000		
Casualty insurance	-10,171	-10,255
Liability insurance	-76,923	-94,977
Motor vehicle liability insurance	-6,439	-8,655
Other motor vehicle insurance	-619	-2,161
Fire and property insurance	-118,153	-148,064
of which:		
a) Fire insurance	-90,650	-112,138
b) Technical insurance	-11,306	-5,041
c) Other property insurance	-16,197	-30,885
Transport and aviation insurance	-9,738	6,574
All risk insurance	-2,357	-35,092
Other insurance	-44,630	-8,665
Grand total	-269,030	-301,295
Reinsurance business accepted	-121,067	-122,531
Total insurance business	-390,097	-423,826

- = in favor of the reinsurers

The reinsurance balance is calculated as the reinsurers' earned premiums and the reinsurers' share of gross claims expenses and gross underwriting expenses.

I. 11. Underwriting results for own account

Direct written insurance business - 2010

	2010	2009
in € 000		
Casualty insurance	1,411	665
Liability insurance	-21,808	-36,652
Motor vehicle liability insurance	-6,099	-9,679
Other motor vehicle insurance	-21,864	-2,750
Fire and property insurance	13,381	27,956
of which:		
a) Fire insurance	18,277	21,692
b) Technical insurance	15,414	5,642
c) Other property insurance	-20,310	622
Transport and aviation insurance	2,609	-798
All risk insurance	-15,808	-31,232
Other insurance	-21,043	3,260
Grand total	-69,221	-49,230
Reinsurance business accepted	23,449	-31,257
Total insurance business	-45,772	-80,487

Run-off result

In the financial year, HDI-Gerling Versicherung AG realized a run-off profit in the amount of EUR 438,542 (prior year: EUR 279,028 thousand). The information on the run-off results for the individual categories are discussed in the Management Report under Results of operations

Commissions and other compensation for insurance agents, personnel expense

	2010	2009
in € 000		
1. Commissions of any kind for insurance agents within the meaning of § 92 of the German Commercial Code (Handelsgesetzbuch, HGB) for direct written insurance business	160,266	173,758
2. Wages and salaries	98,181	101,574
3. Social security contributions and expenditures for benefits	15,111	15,029
4. Expenditures for retirement benefits	-838	12,945
5. Total expenditures	272,720	303,306

Number of insurance contracts with a minimum term of one year

Direct written insurance business

	2010	2009
Number		
Casualty insurance*	40,973	38,937
Liability insurance	19,282	19,017
Motor vehicle liability insurance*	531,749	502,019
Other motor vehicle insurance*	354,583	319,939
Fire and property insurance	38,045	35,713
of which:		
a) Fire insurance	11,717	12,390
b) Technical insurance	17,535	13,723
c) Other property insurance	8,793	9,600
Transport and aviation insurance	12,774	13,443
All risk insurance	3,349	3,686
Other insurance	7,374	2,495
Grand total	1,008,129	935,249
Total of all contracts	629,197	592,169
Change due to inclusion of risks under motor vehicle insurance	378,932	343,080
Total insurance business	1,008,129	935,249

*With respect to casualty insurance and motor vehicle insurance, this represents the number of risks.

II. 4. Other income

	2010	2009
in € 000		
Currency exchange gains	444,408	104,473
Reversals of write-downs	6,083	54,448
Income from the reduction or reversal of other provisions	48,305	35,335
Income from services rendered	17,761	13,842
Income from agency and portfolio management services	762	8,878
Other interest and similar income	3,083	7,856
Income from reversal of specific and global valuation allowances	26,832	5,089
Miscellaneous	11,710	9,602
Grand total	558,944	239,523

II. 5. Other expenses

	2010	2009
in € 000		
Currency exchange losses	475,835	97,486
Write-downs of receivables	369	37,341
Interest expense	25,438	26,503
Additions to the interest portion of the provision for pensions	21,468	19,136
Expenses for services	17,622	14,180
Expenses on behalf of the enterprise as a whole	4,111	7,823
Additions to the provision for impending losses	–	1,524
Miscellaneous	14,693	3,941
Grand total	559,536	207,934

II. 9. Net profit/loss from extraordinary items

The net loss from extraordinary items of EUR 16,809 thousand largely includes the adjustment entries to the provision for pensions required by the German Accounting Law Modernization Act (BilMoG) in the amount of EUR 10,633 thousand as well as the recognition of EUR 5,900 thousand as a provision for a potential liability for interest payable in connection with cartel law infringement proceedings.

II. 10. Taxes on income

In the financial year, taxes on income only affect profit/loss from ordinary business activities.

Other disclosures

Employees

	2010	2009
Full-time employees	1,643	1,674
Part-time employees	170	166
Total	1,813	1,840

Governing Bodies of the Company

Please find the names of the members of the Supervisory Board and the Board of Management in the overview on pages 4 and 5 of this report.

Remuneration for the members of governing bodies and advisory boards

The total remuneration for members of the Board of Management was equal to EUR 3,591 thousand. The total remuneration of the Supervisory board was equal to EUR 97 thousand and that of the Advisory Board Members was € 346 thousand. The remuneration of former Board of Management members and their survivors totaled EUR 2,110 thousand.

A total of € 20,752 thousand was recognized for pension liabilities due to former Board of Management members and their survivors.

Derivative Financial Instruments

Until mid-year, the shares held as part of the Company's working capital were hedged under a two-stage stop-loss strategy without the use of derivatives. In July of 2010, this hedging policy was replaced by a three-stage stop-loss strategy that also permits the use of stock index futures. However, the pre-defined stop-loss benchmarks were not reached by the end of December, so that the use of derivative financial instruments (derivatives) as part of this strategy was not required. As of 31 December 2010, the direct portfolio of the Company did not include either stock index options or stock index futures. No shares in special stock funds were held during the 2010 financial year.

The Company is holding shares in a special bond fund. Within this fund, Euro-Bund futures contracts were traded in the course of the financial year. These were acquired to enhance yield and/or manage duration. As a general rule, however, futures may also be used as an anticipatory hedge. The purchasing of such derivatives is subject to strict risk controls. As of 31 December 2010, the market risk potential as defined under the Investment Act was 78.9% and thus significantly below the upper limit of 200% permissible under the law. At the end of the financial year, no Euro-Bund futures contracts were held under the special fund. The futures trades transacted in the course of the year realized EUR 1.0 million in extraordinary gains within the fund.

The Bund futures within the special bond fund were valued on the basis of market prices, so that the fair values determined in this manner were incorporated into the calculation of the fund price. The special bond fund was recognized under "Shares, investment shares and other non-fixed interest securities."

Important agreements

A control and profit and loss transfer agreement is in effect with Talanx AG as the controlling company; moreover, in the course of the financial year, this agreement was carved out from Talanx Service AG (formerly HDI-Gerling Sach Serviceholding AG) together with the equity investment in our Company and spun off to Talanx AG. A control and profit and loss transfer agreement is further in effect between HDI-Gerling Industrie Versicherung AG as the controlling company and HDI-Gerling Welt Service AG as the controlled company.

Shareholdings in the Company

The sole shareholder of HDI-Gerling Industrie Versicherung AG is Talanx AG, which holds 100% of the share capital. In January 2007, Talanx AG had informed us pursuant to § 20 (1) and (4) of the German Stock Corporation Act that it was indirectly holding a majority interest in our Company by virtue of attribution pursuant to § 16 (4) AktG, and did so with respect to the share capital and also with respect to voting rights. With the carve-out of our Company from Talanx Service AG (formerly HDI-Gerling Sach Serviceholding AG) Talanx AG now also holds a direct interest in HDI-Gerling Industrie Versicherung AG.

Other financial obligations

HDI-Gerling Industrie Versicherung AG is a member of Verkehrsofferhilfe e.V., Hamburg. As a result of this membership in this association, it is obligated to contribute to the potential payments made by the association as well as its general and administrative expenses in line with our pro-rata share of the premium income generated by the members of the association in direct written motor vehicle liability insurance in the next to last calendar year.

As a member of the Pharma-Rückversicherungs-Gemeinschaft, HDI-Gerling Industrie Versicherung AG is required to assume a pro-rata share of the outstanding obligations in the event that any of the remaining members of the Pharma-Rückversicherungs-Gemeinschaft becomes insolvent. The similar obligation exists under a contractual agreement with the Deutsche Kernreaktor-Versicherungsgemeinschaft as regards a default of one of the association members.

The carrying amount of the assets pledged, assigned or deposited as security is equal to EUR 51,302 thousand (prior year: EUR 36,108 thousand).

Call commitments are in effect vis-à-vis HG Sach Altinvest GmbH & Co. KG in the amount of EUR 21,600 thousand, vis-à-vis Hannover Euro PrivateEquity Partners III GmbH & Co. KG in the amount of EUR 1,900 thousand, vis-à-vis Equity Partners IV GmbH & Co. KG in the amount of EUR 3,500 thousand, vis-à-vis AllianceBernstein Legacy Securities C 1, L.P. in the amount of EUR 2,829 thousand, and vis-à-vis Recap Investments VII in the amount of EUR 269 thousand. There are no further call commitments on shares and equities, notes payable or other contingent liabilities of any kind.

Talanx AG, Hannover has assumed liability, in the internal relationship, for the settlement of the retirement benefit obligations of the Company to former employees. Under this pension commitment, the Company has a joint liability in an amount totaling EUR 46,453 thousand as of the end of the financial year.

As the sponsoring company for the Gerling Versorgungskasse [Pension Fund], the Company is liable, on a pro-rata basis, for shortfalls, if any.

Additional liabilities in the amount of EUR 5,673 thousand are related to guaranteed credits (“Avalkredite”). Letters of credit in effect with various banks total EUR 319,387 thousand.

Due to the carve-out of various equity investments from Talanx International AG (formerly: HDI Gerling International Holding AG) and spin-off to our Company that were implemented during the reporting period, HDI-Gerling Industrie Versicherung AG – as the succeeding legal entity under § 133 of the German Reorganization of Companies Act (Umwandlungsgesetz; UmwG) – is liable together with Talanx International AG as a joint and several debtor, for the liabilities of Talanx International AG that were created prior to the effectiveness of the carve-out as of 1 January 2010, and is so liable for a period of five years, or for a period of ten years for pension obligations based on the German Company Retirement Benefits Act (Betriebsrentengesetz). The total amount of these obligations as of 31 December 2009 was equal to EUR 32 million. Of that, EUR 24 million were due to affiliated companies.

Due to the carve-out of the industrial legal protection insurance business from HDI-Gerling Rechtsschutz Versicherung AG and spin-off to our Company that were implemented during the reporting period, HDI-Gerling Industrie Versicherung AG – as the succeeding legal entity under § 133 of the German Reorganization of Companies Act (UmwG) – is liable together with HDI-Gerling Rechtsschutz Versicherung AG as a joint and several debtor, for the liabilities of the latter that were created prior to the effectiveness of the carve-out as of 1 January 2010, and is so liable for a period of five years, or for a period of ten years for pension obligations based on the German Company Retirement Benefits Act. The total amount of these obligations as of 31 December 2009 was equal to EUR 176 million. Of that, EUR 12 million were due to affiliated companies.

The Board of Management of our Company views the probability that obligations arising from the above contingent liabilities will result in actual claims and payments to be low.

As a result of the merger with Gerling Konzern Allgemeine Versicherungs-AG, HDI-Gerling Industrie Versicherung AG as the succeeding legal entity, has become a party to cartel law infringement proceedings. In March of 2005, the German Federal Cartel Office had imposed an administrative fine in the amount of EUR 18.85 million on Gerling Konzern Allgemeine Versicherungs-AG, among others, on grounds of alleged cartel agreements in the German industrial insurance market. In January of 2010, the Higher Regional Court in Düsseldorf had acquitted HDI-Gerling Industrie Versicherung AG of the cartel-related charges because liability as legal successor to Gerling Konzern Allgemeine Versicherungs-AG was out of the question. This ruling was appealed by the Chief Public Prosecutor in Düsseldorf, so that the matter is now before the German Federal Court of Justice for its ruling.

Related party disclosures

The Company is engaged in extensive reinsurance agreements with companies in the HDI-Gerling Group. Appropriate considerations are paid and received for all reinsurance coverage as well as any and all services that are received or rendered in connection with this protection. To that extent, this business has no effect on the net assets or results of operations when compared to the use and rendering of the described services by or for companies that are not related parties.

In the reporting period, there were no non-arms length transactions with related parties that were relevant to an assessment of the net assets or results of operations.

Total audit fees

The fee for the financial auditor – broken down into expenses for audit service, for other certification services, for tax advisory services and for other services – are included in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G. and Talanx AG on a pro-rata basis.

Consolidated financial statements

The Company is a member company of the HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit Group. HDI V.a.G. (the parent company) prepares consolidated financial statements for the Group according to § 341i HGB that includes the Company within the scope of consolidation. The consolidated financial statements will be published in the German electronic Federal Gazette (Elektronischer Bundesanzeiger). They can also be obtained at the head office of the parent company, Hannover, Riethorst 2. The financial statements of the Company are further included in the scope of consolidation of the Consolidated Financial Statements of Talanx AG, Hannover.

Hannover, 7 March 2011

The Board of Management

Dr. Hinsch

Aßhoff

Dr. ten Eicken

Heidbrink

Metzner

Dr. Sigulla

Wohlthat

Wollschläger

Auditors' report

We have examined the Annual Financial Statements – comprising the balance sheet, the income statement as well as the notes – including the accounting and the management report of HDI-Gerling Industrie Versicherung Aktiengesellschaft, Hannover for the financial year from 1 January to 31 December 2010. The accounting and the preparation of the Annual Financial Statements and the Management Report in accordance with the provisions of German commercial law and the additional regulations of the articles of incorporation and rules of procedure are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the Annual Financial Statements including the accounting and on the Management Report on the basis of our audit.

We conducted our audit of the Annual Financial Statements in accordance with § 317 of the German Commercial Code (Handelsgesetzbuch; HGB) and in compliance with the generally accepted German standards for the audit of financial statements as promulgated by the German Institute of Public Accountants (Institut der Wirtschaftsprüfer; IDW). These standards require that we plan and perform the audit so that errors and misstatements materially affecting the presentation of the Company's assets, financial position and earnings as conveyed in the Annual Financial Statements according to the generally accepted accounting principles (Grundsätze ordnungsmäßiger Buchführung; GoB) and in the Management Report will be detected with reasonable assurance. Knowledge of the business activities and of the economic and legal environment of the Company as well as anticipations concerning possible misstatements were taken into account in the determination of audit procedures. As part of the audit, the effectiveness of the system of internal controls as it relates to accounting, as well as the evidence supporting the disclosures in the accounting, the Financial Statements and the Management Report are examined primarily on a sampling basis. The audit includes an assessment of the accounting policies applied and of the significant estimates made by management as well as an evaluation of the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonably reliable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the understanding gained during the audit, the Annual Financial Statements are in compliance with statutory regulations and the supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in compliance with the German generally accepted accounting principles (Grundsätze ordnungsmäßiger Buchführung; GoB). The Management Report is consistent with the Annual Financial Statements and in all material respects presents a fair view of the position of the Company and of the risks and opportunities associated with future developments.

Hannover, 15 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch
Wirtschaftsprüfer (German Public Auditor)

Hellwig
Wirtschaftsprüfer (German Public Auditor)

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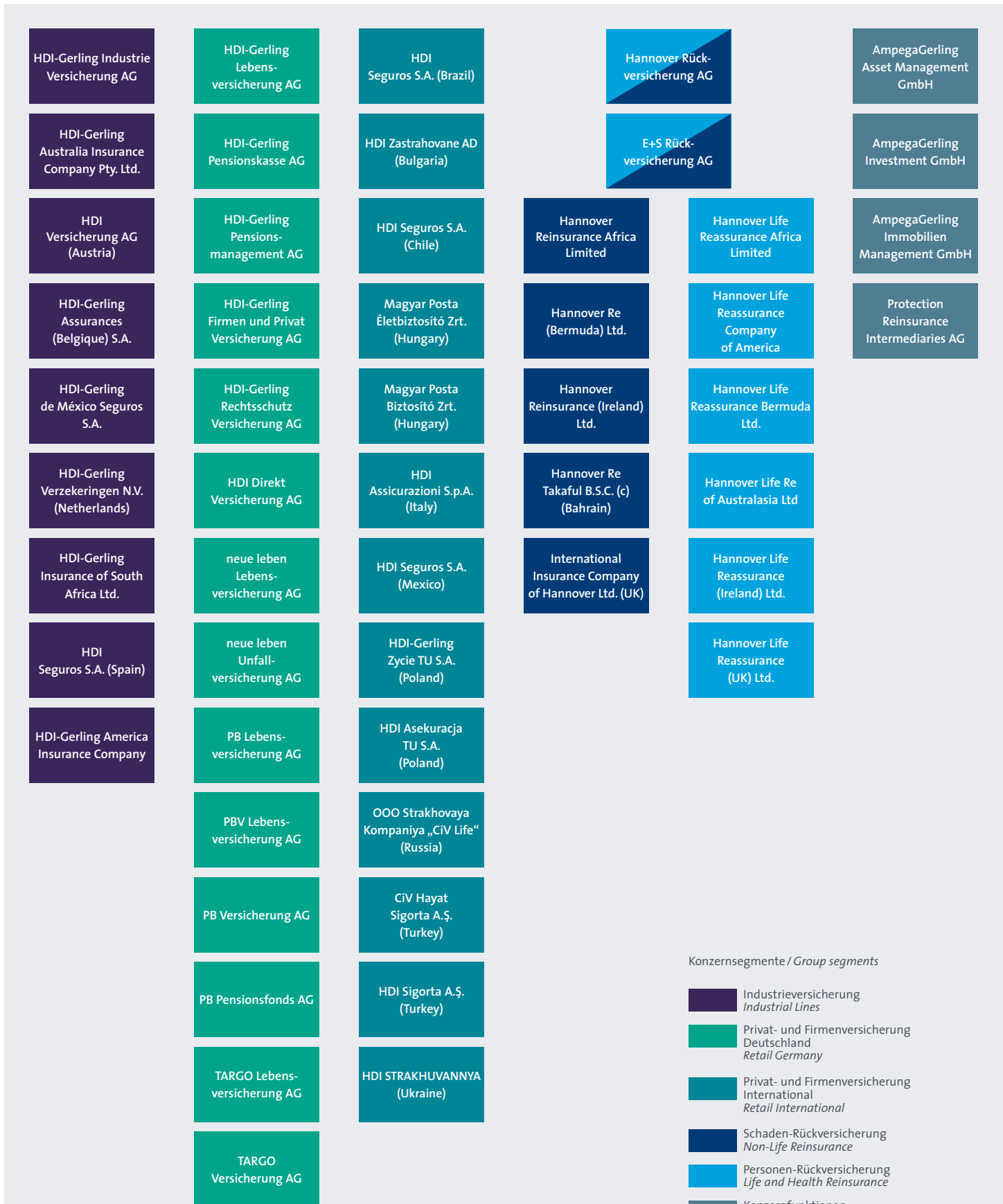
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Konzernstruktur Group Structure

Talanx AG



Konzernsegmente / Group segments

- Industrieversicherung
Industrial Lines
- Privat- und Firmenversicherung
Deutschland
Retail Germany
- Privat- und Firmenversicherung
International
Retail International
- Schaden-Rückversicherung
Non-Life Reinsurance
- Personen-Rückversicherung
Life and Health Reinsurance
- Konzernfunktionen
Corporate Operations

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